DOCUMENT RESUME

ED 411 431 CE 074 754

TITLE	Homebuyer Education Learning Program Guide.
INSTITUTION	Federal Housing Administration (HUD), Washington, DC.
REPORT NO	HUD-1657-H
PUB DATE	1997-00-00
NOTE	154p.
PUB TYPE	Guides - Classroom - Learner (051)
EDRS PRICE	MF01/PC07 Plus Postage.
DESCRIPTORS	Adult Education; *Budgeting; Budgets; Consumer Education; Credit (Finance); Family Life Education; Financial Aid Applicants; *Homeowners; *Housing; Instructional Materials; Learning Activities; Learning Modules; Loan Repayment; *Money Management; *Purchasing; *Real Estate
IDENTIFIERS	Federal Housing Administration

ABSTRACT

Designed to help present the FHA Homebuyers Education and Learning Program (HELP), this guide answers questions about the home buying process. Successful program completion may entitle the participant to a reduction of the cost of mortgage insurance and, in certain cases, assistance with the downpayment and/or closing costs. Each of five modules is intended for presentation in a 5.5-hour session. The material in the modules includes information, exercises, and activities to apply the concepts and knowledge. Each module ends with an evaluation form. Module I stresses the importance of budgeting for the downpayment and budgeting after the purchase. Module II outlines how to locate a home and the advantages of working with the real estate agent. It explains the purchase contract, offers, and contingencies by pointing out the steps involved when negotiating the price. Module III focuses on selecting a lender, types of mortgages, and processes involved in securing a loan, including the application and pertinent information that must be provided to the lender. It briefly explains how qualifying criteria is evaluated by the lender and discusses Fair Housing Laws and Real Estate Settlement Procedure Act requirements. Module IV covers the steps involved in the homebuying process. Module V highlights the additional responsibilities associated with home ownership and provides tips on performing periodic inspections and repairs to avoid major repair costs. Appendixes include forms, worksheets, and a glossary. (YLB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED 411 431

CE

Homebuyer EDUCATION *learning* program *guide*

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

CE074754

FHA
We'll get you home.

TABLE OF CONTENTS

Introduction 1

Module I 3

Budgeting for your home purchase

Module II 29

Shopping for your home

Module III 49

Shopping for your lender

Module IV 85

Now you are ready to close

Module V 111

How to care for your home after closing

Forms and work sheets

Glossary of Terms

The successful completion of this program may entitle you to a reduction of the cost of mortgage insurance, and in certain cases assistance with your downpayment and / or closing costs. The objective of this program is to help answer the many questions you will have about the home buying process. Below is a summary of each of the four modules for this program.

Module I

Stresses the importance of budgeting for the downpayment, and the importance of budgeting after you purchase your home.

Module II

Outlines how to locate your home, and the advantages of working with the real estate agent. This module also explains the purchase contract, offers, and contingencies by pointing out the steps involved when negotiating the price.

Module III

Focuses on selecting a lender, various types of mortgages, and the processes involved in securing a loan including the application and pertinent information that must be provided to the lender. This module briefly explains how qualifying criteria is evaluated by the lender. It also discusses Fair Housing Laws and RESPA requirements.

Module IV

Covers the steps involved in the closing process, the final step in the homebuying process. It also highlights the additional responsibilities associated with homeownership, and it provides tips on performing periodic inspections and repairs to avoid major repair costs.

The material in your Guide includes valuable information, exercises, and activities for you to apply the concepts and knowledge you acquire.

Many would be homeowners are scared away because of a process they feel is complex and intimidating. One way to minimize the fear of the homebuying process is to provide clear and consistent information and high quality guidance for buying a home. The objective of this guide is to educate you on the homebuying process. When you complete this program, you will have a good understanding of:

- How to budget and save for a down payment
- How to find a home and make an offer
- How to apply for financing
- What takes place at a closing
- How to establish a post purchase budget
- Why it is important to maintain a home

Group exercises and activities are included to involve you and to help you apply the principles you will be learning.

Using The Participant's Guide

This Guide is designed to help present the FHA Homebuyers Education and Learning Program (HELP). The Guide serves as a "roadmap" to its objective with the Facilitator showing the way. The more interactive the class is with the Facilitator's presentation, the more you will enjoy the learning experience.

Homebuyer Education and Learning Program Schedule

Each of the four Modules of this program will be presented in five hour and thirty minute sessions. At the end of each module, you will be asked to complete an evaluation form. The form is located on the last page of the Module in your Guide. Your feedback is important to measure the success of the program.

Module 1

BUDGETING for your Home Purchase

NOTES

Our daily lives have become so busy that the American family is generally accustomed to "buying" rather than "shopping". When we do not take the time to shop for the best value, generally the cost is higher. This buying mode has made many of us "impulsive" spenders.

An impulsive spender is one who purchases an item without giving any thought to the significance of the purchase. A family that develops this type of spending pattern is less likely to save money. The family lives from paycheck to paycheck. Sometimes that paycheck does not stretch far enough, and then it becomes, "borrowing from Peter to pay Paul". Even if there is a desire to buy a home of their own, it seems out of reach, because they don't have the money for the downpayment or closing costs.

We want to help you understand your own spending habits and give you guidance and tools to work with to accomplish your dream of owning your own home.

Are you a "buyer" or a "shopper"

There is a simple technique to help you control impulsive spending and better manage your money. This simple technique is called: "Budgeting your money!"

What does "budget" mean to you?

_____

_____

_____

_____

_____

_____

Now lets talk about ways to help you look carefully at your "real" spending habits and discuss "budgeting".

Some of you may already be familiar with the budgeting process or how to budget, but others may not understand the concept of a budget. A budget is simply a plan for spending and saving money.

6

In the corporate world, companies MUST budget their income properly to make a profit and keep their spending in line with the income the company receives. These budgets are generally prepared annually, with quarterly and sometimes monthly reviews.

The budget provides a direction for the way company money is to be spent. By budgeting, a company can realize a savings of money which results in a profit that can be distributed to the investors/stockholders, as dividends.

In a family or household, a budget generally includes your salary and expenses and needs to be reviewed and adjusted more often than quarterly. A monthly plan and review is recommended. For some of you that are just learning to budget, a weekly plan and review may work best.

Where to begin?

How can a budget help you?

A budget is a written log of how your money is being spent. It allows you to see your total income and where that income is going. Budgeting may seem hard for some of you because it requires some planning and a desire or determination to follow the budget.

How to budget

- **Gather family members together** and allow them to each express their ideas about how the money is to be spent.
- **Set realistic goals.** Goals set too high are not attainable.
- **Develop flexible goals.** Allow room for change. Many events can happen in a short period of time that can change or alter your goals.
- **Be specific in writing your goals.** Make sure all family members understand the goal in a clear and concise manner.

Setting goals and prioritizing them is a very good place to begin on the budgeting process. You cannot decide how to get somewhere if you don't know where you are going. So, let's begin by deciding where we are going.

What is a "goal"?

Some of you may already understand the importance of setting goals. It is always recommended when setting a goal, that you write it down on paper. The fact that you have put the goal in writing and can look at it and examine it, makes it real. In the corporate world, company goals are the ideals of what they want to accomplish during a year. Once they have determined their goals, they then must prioritize the goals to determine what is most important.

CASE STUDY #1 - XYZ DELICATESSEN

8

XYZ Delicatessen's owners need to make a decision on renewing the lease on their store location. They have located a new space that looks more appealing to them, but the rent would be higher. Their current landlord is willing to renew their lease at the same rate for the next year, but they really like the other space better.

Their current space has provided them a good income with a profit, so they have been able to put money into a savings account. When they reviewed their savings balance, they decided they could afford to improve their deli equipment by buying a new oven.

Just as the old lease expired, the refrigerator that holds their drinks broke down. They are faced with having to replace it. Since most of their savings were used to purchase the new oven, they are a little short on cash in savings.

Question: Should they ignore the refrigerator problem, not replace it and go ahead and lease the new deli space?
OR
Should they buy a new refrigerator and wait another year before they move into new space?

THIS IS CALLED SETTING YOUR PRIORITIES. WHICH IS MORE IMPORTANT:

1) The refrigerator?
or
2) The new store space?

XYZ Deli owners determined that if they moved into the new space without a refrigerator for drinks, they would not make as much profit as before. If their profits went down, then they might not be able to afford the new store space.

They had set priorities

Their greatest priority was making a profit. It would be better for them to buy the new refrigerator and wait for one year before looking at new space. At the end of one year their oven and refrigerator would still have a long life and they would have extra money in the savings account that could help them with the moving expenses of a move to a new location.

The next step in the budgeting process is: Prioritize your goals. This process helps you "plan" for the most important projects.

THERE ARE TWO (2) TYPES OF GOALS:
1. SHORT RANGE GOALS
2. LONG RANGE GOALS
It is best to have both of these goals.

Short range goals

Generally, you will prepare a short range goal for the period of time covered with each pay check you receive. If you get paid weekly, the plan will include all your expenses and income for one (1) week; if you get paid bi-weekly, the goal will include all your expenses and income for two (2) weeks, etc.

List 10 short range goals:

1)_____ 6)_____
2)_____ 7)_____
3)_____ 8)_____
4)_____ 9)_____
5)_____ 10)_____

Your short range goals may include things like:

- pay your rent
- pay utilities
- buy weekly food
- pay weekly child care
- buy weekly gasoline

Each of these goals occurs in a short span of time and many of them may be recurring.You will include these short range goals in your working budget. Many of you have set short range goals, even though you may not have realized what you were doing. A goal doesn't change whether it is a mental thought or a written statement. It becomes much clearer and more realistic, however, when you have taken the time to write it down. As you can see, in order to meet your short range goals, you need a job that provides you an income to pay for those goals.

BEST COPY AVAILABLE

10

Long range goals

Your long range goal will span sometimes only one (1) month, six (6) months or could span one (1) year or more. Your long range goal is determined by how long it will take you to accumulate the money to meet the goal. There are variables that enter into that decision. How much does the goal cost? And how much are you setting aside each pay period to work toward that goal?

List 10 long range goals:

1._____ 6._____

2._____ 7._____

3._____ 8._____

4._____ 9._____

5._____ 10._____

Your long range goals may include things like:

- buy house
- buy new clothes
- buy furniture or appliances
- buy car
- pay off bills
- education
- vacation

The long range goals, however, require not just an income, but also a plan for money to be accumulated to pay for these goal items. A savings account provides the avenue to accumulate this money. The savings account becomes a line item in your budget process. Saving money is generally, the only way individuals, today, are able to accumulate the funds required to purchase a home.

Now that we have talked about short and long range goals. Lets work on prioritizing those goals.

List your short range goals in order of priority:

1) _____
2) _____
3) _____
4) _____
5) _____
6) _____
7) _____
8) _____
9) _____
10) _____

List your long range goals in order of priority:

1) _____
2) _____
3) _____
4) _____
5) _____
6) _____
7) _____
8) _____
9) _____
10) _____

CASE STUDY #2 - MURRAY FAMILY

12

Janet and Sam Murray are a young newly married couple. They both have graduated from college and are living in an apartment. Currently, they both have jobs. They have been thinking about buying a home, but do not think they have enough money in their Bridal Registry Account to cover the full cost of a downpayment and closing costs.

They need to evaluate their income and expenses to:

1. See if they can afford a home
2. Determine how they could add money to their Bridal Registry Account to save enough money for a downpayment and closing costs

They have just finished a wonderfully prepared meal and have sat down with all their payroll check stubs and bills to discuss the possibility of purchasing a home. During their discussion, Janet quickly realized she and Sam had different ideas. She was getting confused, so they agreed that they first needed to determine some goals. They each wrote down their goals and prioritized them.

Sam's Goals:

1. Buy a new car - Sam was driving the same car he had in high school and college. It was getting old and needing frequent repairs.
2. Pay off college debt - Sam had to borrow money to finish college. He was now obligated to repay that loan.
3. Buy a home

Janet's Goals:

1. Buy a home
2. Buy new living room furniture
3. Reduce income taxes - Since Sam and Janet both work, live in an apartment, and have no children, Janet thought they were paying too much in income tax.

It didn't take long for them to see that they shared some of the same goals, but, in reality they needed to negotiate to see how all of their goals could be met. They then decided to take a look at their income and expenses.

Sam graduated from college with a degree in Chemical Engineering. He got a job at Bama Pie Company. He was doing very well at his job and felt he had job security, since Bama Pie makes all the pies for the McDonalds fast food chain and had recently landed a new, very big contract with Pizza Hut Corp. to make their pizza dough. Sam's salary is $38,000 per year, paid on the first and fifteenth of the month.

Janet also graduated from college with a degree in accounting and got a job with Williams Companies. She passed her Certified Public Accountant exam, which allowed her to get an immediate increase in salary. Janet is making $35,000 per year and also gets paid on the first and fifteenth of the month.

Sam's Income:		Janet's Income:	
Gross:	3,166.67	Gross:	2,916.67
(Soc. Sec. Tax)	242.25	(Soc. Sec. Tax)	223.13
(Fed. Tax)	886.67	(Fed. Tax)	816.67
(State Tax)	221.67	(State Tax)	204.17
(Health Ins.)	100.00	(Health Ins.)	100.00
(Profit Sharing)	150.00		
Net Salary	1,566.08	Net Salary	1,572.70

Sam's Mo. Net:	1,566.08
Janet's Mo. Net:	1,572.70
TOTAL MO. NET:	3,138.78

14

Monthly expenses:

Apartment Rent	500.00	all utilities paid
Food	600.00	
Car Insurance	125.00	1-car / liab. only 1-car / full coverage
Clothing	200.00	
Auto	250.00	maintenance / repairs
Phone	100.00	both parents live away
Entertainment	200.00	
Gasoline	150.00	
Medical	50.00	medicine
Cash	200.00	
Credit Cards	300.00	$2,000 balance for household needs
Loan Payment	150.00	$15,000 balance college loan
TOTAL EXPENSES	2,825.00	

MURRAY FAMILY WORKSHEET

Six month budget plan

15

Total net monthly income: _____

Budget Category	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	TOTAL
Housing							
Utilities							
Food							
Car Insurance							
Clothing							
Auto Maintenance							
Phone							
Entertainment							
Gasoline							
Medical							
Cash							
Credit Cards							
Loan Payment							
Child Care							
Miscellaneous							
TOTAL							

Murray Net Income:	$3,138.78
(Less) Expenses:	2,825.00
Net Savings	$ 313.78

Sam and Janet have $300 per month they can save for a downpayment and closing costs. They have a balance of $1500 in their Bridal Registry Account. At a savings rate of $300 per month, they could add $3600 to their account giving them a total of $5100 in a year.

Their credit cards will be paid off in seven (7) months at the rate of $300 per month, which would give them an additional $300 per month for savings.

Sam's college loan will take approximately eight (8) years to pay off at the rate of $150 per month. Sam and Janet both agreed that they should leave the college loan payment at the $150 and let it pay itself off at that normal time, because the interest rate on that loan was lower than they could earn on their money in a savings account. After taking a look at their budget, goals, and priorities, it became clear they could negotiate some of their goals and both be happy with them. They divided their goals into short range and long range goals. Their goals for the next six (6) months were the following:

1) Pay cash for all purchases

2) Have their credit cards paid off in six months

3) Add $300 per month to savings

Their long range goals:

1) Continue to pay $150 per month on Sam's college loan and not be concerned about the time it would take to pay it off, because it was at a low interest rate.

2) When the credit cards were paid off, add that $300 per month to the savings account.

3) At the end of one (1) year, have a savings balance of $6,600.

4) Start looking for a home to purchase after one (1) year of following their budget and meeting their goals.

By evaluating their income and expenses, they knew they could afford to buy their own home as long as the price was within their housing budget amount. They knew that by following their budget and meeting their goals, they could afford the down payment and closing costs for the purchase of a home.

However they also realized that unless they were very disciplined and followed their budget, they would not be able to purchase a home in one (1) year.

CASE STUDY #3 - HERNANDEZ FAMILY

Juan and Rita Hernandez have been married six (6) years. They have two (2) children and do not plan to have any more. Juan and Rita own two (2) Duds and Suds Laundromats. Their business is doing very well. They purchased their business shortly after they were married and at that time, they were determined to make sure the business was successful before starting a family. After three (3) years in the business, their cash flow was established and they both felt comfortable with having a family.

From the beginning of their marriage, they learned to negotiate and compromise for what they wanted. They lived with Juan's parents from the start of their marriage. This arrangement allowed them to put all of their financial resources into the business. They were both working much of the time and the living arrangement worked very well for them. After having their two children, however, the home of Juan's parents was feeling cramped and too small. Juan's father died shortly after their last child was born. Juan is an only child, and his mother is older and not in good health, so he feels very responsible for her care. Rita and Juan decided it may be time for them to purchase a home of their own. They discussed the move with Juan's mother. Because of her health problem, Juan believes it would be best for them to purchase a home large enough for their family of four (4) with additional space for his mother to live with them. To purchase a home large enough for all of them, the cost of housing will increase. Juan's parents had their home paid for, so to purchase a new home will have a major impact on the family's housing costs. Juan's mother makes it perfectly clear that they should sell her house and use the money from the sale to apply to the purchase of their new home. With that offer, Juan, Rita, and Mom sit down to discuss their family finances to determine how much they could allow in their budget for the increased housing expense.

Juan and Rita pay themselves a monthly salary from their business. Their net income is $42,000 per year. Juan's mother is retired and has a retirement income of $15,000 per year. Mom Hernandez has offered to contribute her retirement income to the household budget.

Juan & Rita's Net Monthly Income: $3,500.00
Mom Hernandez's Net Monthly Income: $1,250.00
Total Net Monthly Income: $4,750.00

Monthly Expenses:

Utilities	$200.00	
Home Maintenance	300.00	Includes Insurance & Taxes
Food	750.00	
Car Insurance	0	Their car is a business expense, so they pay for the car insurance through the business account.
Clothing	300.00	
Auto Maintenance	25.00	Much of their auto maintenance is charged to the business account.
Phone	30.00	
Entertainment	400.00	
Gasoline	25.00	Most of their driving is deducted as a business expense.
Medical	700.00	Mom Hernandez is on several different and expensive medications. She also has to be tested the clinic every month.
Cash	400.00	
Credit Cards	200.00	
Loan Payment	300.00	Car payment
Child Care	400.00	
Miscellaneous	200.00	
TOTAL EXPENSES	$4,230.00	

CASE STUDY #3 - HERNANDEZ FAMILY WORKSHEET

Six month budget plan

Total net monthly income: $4,750.00

Budget Category	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	TOTAL
Housing							
Utilities							
Food							
Car Insurance							
Clothing							
Auto Maintenance							
Phone							
Entertainment							
Gasoline							
Medical							
Cash							
Credit Cards							
Loan Payment							
Child Care							
Miscellaneous							
TOTAL							

CONCLUSION - CASE STUDY #3 - HERNANDEZ FAMILY

Hernandez Net Monthly Income:	$4,750.00
(Less) Monthly Expenses:	4,230.00
Net Savings:	$ 520.00

Upon evaluating their net savings, Juan, Rita and Mom decided they would have to make some adjustments in their lives if they were going to purchase a new home. They were looking at buying a newly built home, so their initial maintenance would be less than on their current older home. Their utilities would stay about the same, since they were looking at a larger home, even though, it would be more energy efficient, the size would make up the difference. The $520 plus $300 maintenance would allow them a monthly payment of $820. This monthly payment would have to include the hazard insurance and real estate taxes. They also realized how much they were spending in miscellaneous, cash, and entertainment and thought that if they wanted a new home, they could cut down on some of their frivolous spending and have more money to apply to a new house payment. They decided to limit their entertainment spending to $300 per month; out of pocket cash spending to $200 per month; and if they were not spending as much on entertainment, then their monthly child care expense would also automatically decrease. They decided to discipline themselves to not spending more than $350 per month on child care.

With these reductions in their spending habits, they could have added flexibility of $350 per month to apply to a house payment or expenses of buying new items for their new house. They now could look at up to $1170 per month in a house payment.

They called a realtor to list their house immediately, and began looking at plans and specifications with a builder to get the exact house they wanted.

PERSONAL INCOME AND EXPENSE SHEET

22

INCOME:	Wage earner 1	Wage earner 2
Weekly		
Bi-Weekly		
Monthly		
TOTAL		

WAGE EARNER 1 _____

WAGE EARNER 2 _____

TOTAL INCOME _____

EXPENSES:	Weekly	Monthly
Housing		
Utilities		
Food		
Insurance		
Clothing		
Auto Maintenance		
Phone		
Entertainment		
Gasoline		
Medical		
Cash		
Credit Cards		
Loan Payment		
Child Care		
Miscellaneous		
TOTAL		

TOTAL INCOME: _____

(less) TOTAL EXPENSES: _____

NET INCOME

AVAILABLE FOR SAVINGS: _____

PERSONAL BUDGET WORKSHEET

BUDGET PLAN FOR WEEK OF:_____ **TO**_____,
1997

Net monthly income:_____

Budget Category	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	TOTAL
Housing							
Utilities							
Food							
Car Insurance							
Clothing							
Auto Maintenance							
Phone							
Entertainment							
Gasoline							
Medical							
Cash							
Credit Cards							
Loan Payment							
Child Care							
Miscellaneous							
TOTAL							

SIX MONTH BUDGET PLAN

24

NET MONTHLY INCOME: _____

Budget Category	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	TOTAL
Housing							
Utilities							
Food							
Car Insurance							
Clothing							
Auto Maintenance							
Phone							
Entertainment							
Gasoline							
Medical							
Cash							
Credit Cards							
Loan Payment							
Child Care							
Miscellaneous							
TOTAL							

KEYS TO SUCCESSFUL BUDGETING

1) Basic decisions should be made which involve the entire family concerning how the money will be spent, who will actually pay the bills, and who will maintain the budget.

2) Develop your own spending plan-suited to your family's income, needs, goals Don't try to follow others.

3) Decide what your family's most important goals are. Your money should be spent for those things which mean most to your family's welfare and happiness.

4) Plan ahead for the whole year...only in this way can you have a true picture of where you are going and how well you are following your financial plan.

5) Include all your income and all your expenses. Plan according to what your income is now not what you expect it to be.

6) Keep good records but make the procedure as simple as possible.

7) It is important that you track and record most every penny spent in order to control spending habits.

8) As a homeowner, it is extremely important that you include reserve accounts for home maintenance in your budget plan.

9) Pay yourself first by developing a personal savings plan. Try to save 10% of your income. If you can't manage 10% right away, try to save a smaller amount, but do so regularly.

10) If at the beginning, you fail at times to stick to your budget plan, don't give up; stay with it. You will succeed if you are determined.

11) Review your plan once a month. Analyze expenditures and alter the plan if you feel adjustments would improve the workability of your budget.

ARE YOU AN OVERSPENDER?

If you feel your finances control you instead of you controlling your finances, ask yourself the following questions. If your answer is "yes" to the majority of these questions, you may want to consider altering your current spending habits.

1) Are you still paying bills from purchases made a year ago?

2) Do you use credit cards even when the purchase is small and you have the cash?

3) Is your checking account frequently overdrawn?

4) Do you race to the bank to deposit your paycheck before the checks come in?

5) Have you stopped having, or adding to, a savings account?

6) Do you sometimes wonder why you made a particular purchase?

7) Do you feel "out of control" when faced with a buying decision?

8) Do you "juggle" payments to keep creditors satisfied?

9) Are your credit accounts usually at the maximum credit line?

10. Do you ever feel free to spend more after clearing up a debt?

11. Are you surprised at how much interest you pay creditors annually?

12. Do you hope that your children will handle money better than you do?

13. Would a small reduction in your income or an unusual expense force you to neglect your obligation to creditors?

BUDGET QUESTIONS

Upon completion of your budget worksheet, here are some questions to think about. You and your spouse or significant other should discuss these questions together.

1. What are the biggest items in your budget?

2. How much are you saving each month on your current budget?

3. How could you save more money? What expenses could you cut or reduce?

4. In what ways do you see your financial picture changing in the next year?

In the next five years?

NOTES

28

Module 2

SHOPPING for your Home

NOTES

SHOPPING FOR YOUR HOME

The most exciting phase for the homebuyer is finding the right house. For most families, buying a home is the largest single investment they will ever make. Selecting the right house takes a lot of thought and careful planning. Many factors play an important role in determining the right place for you to live.

The first step in selecting a home involves asking yourself the following questions:

- Where will the home be located?
- What community amenities are important?
- What type of house? single level, two story, duplex, condo, etc.
- Is adequate transportation available?
- Convenient to shopping?
- Quality and location of schools?

For most families, their wants far out weigh their needs when it comes to buying a home. It is unlikely (but not impossible) that the homebuyer's dream house will be easy to locate, so flexibility is required in searching for a suitable house. It is important to remember that special or unusual features in a property usually increases the price.

V.

Where would you like to live? To answer this question take a few minutes and write down your answers to the questions below:

- Where do you work?
- Do you drive to Work?
- Do you need public transportation?
- How much time are you willing to spend going to and from work?

Get a map, find where you work and look at the neighborhoods you are considering and determine the amount of time you are willing to commute. If you need public transportation get a bus schedule or a rail map of the local systems, to see which neighborhoods they service. For example: If you can spend an hour traveling each way to work and you need public transportation, look at areas one hour's ride from your work. If you can spend an hour driving each way to work, look at neighborhoods that you can drive to in an hour. Don't waste time searching for a house in areas that you cannot reach or that are too far away from your job site.

EVALUATING NEIGHBORHOODS

The location of the home is important from both a buying and a future selling standpoint. Usually a potential homebuyer will sacrifice features in a home to live in a more desirable neighborhood. The conveniences and amenities available are critical in evaluating neighborhoods. Some people want to be near their place of employment, churches, or shopping. Schools, parks, and recreation may be more important for some people. For others the need to be near public transportation or have easy access to freeways and interstates may be a top priority. There are several things that almost everyone looks for in a neighborhood:

- Adequate police and fire protection
- Reasonable real estate taxes
- Well-maintained appearance

In addition, to finding a neighborhood that is right for you, there are some things you might want to check into more thoroughly such as schools, safety and the costs. Some suggestions for you to consider:

Schools

- Call the neighborhood school and ask if you can visit
- Talk to friends and co-workers about the schools in the area and ask about the after school programs

Safety

- Visit the neighborhoods you are considering in the day and night time
- Look for signs of illegal activities, especially at night
- Look for things that may indicate a high crime area, such as bars on doors and windows, security alarm signs, private or community security patrols
- Visit the local police station and find out the crime statistics for that area

Taxes, and hazard insurance costs

- Call the tax assessor's office or ask a real estate agent how much are the property taxes for that area
- Call an insurance agent and find out the average cost of hazard and car insurance premiums for that neighborhood

The Neighborhood Checksheet is to help you decide what's important to you. However, you should consider the things that may not be important to you because they may be important to the value of your property if you decide to sell. Before you start, it might be a good idea to make copies of this checksheet so that you can use them while you are house hunting. You should use it to rate what is least or most important about the neighborhoods you are viewing. For example, if the church of your preference is in the neighborhood, you may rate it as a 3.

NEIGHBORHOOD CHECKSHEET

	Least important = 1	Important = 2	Most important = 3
Schools	1	2	3
Day care	1	2	3
Parks/recreation facilities	1	2	3
Churches	1	2	3
Hospitals	1	2	3
Police Station	1	2	3
Fire Station	1	2	3
Library	1	2	3
Shopping Center	1	2	3
Hardware	1	2	3
Grocery Store	1	2	3
Community Center	1	2	3
Transportation	1	2	3
Other (Write in things that are important to you.)			
_____	1	2	3
_____	1	2	3
_____	1	2	3

Total Points _____

Once you have finished viewing neighborhoods, total your points and the one with the most points should be the neighborhood of highest consideration.

SELECTING A REAL ESTATE AGENT

The majority of home sales occur through the services of a real estate representative. There are two basic types: the seller's agent and the buyer's agent.

Most real estate transactions involve a seller's agent. Their primary job is to market the home for the seller and find a buyer. The seller enters into a contract with the seller's agent to sell their home. This creates a business

relationship in which the agent is working for the seller. The seller's agent will also list the property on the Multiple Listing Service (MLS). MLS is a multiple listing system that provides information on homes currently listed for sale with participating Realtors. The goal of the seller's agent is to sell the property for the highest price possible. The agent's loyalty is to the seller, with whom he/she has a contract. In some instances the seller's agent will also be the buyer's agent.

A buyer's agent and the buyer enter into a contract in which the agent agrees to work in the buyer's best interest. If a buyer chooses to work with an agent when the contract is signed, the buyer agrees to work exclusively with that agent. The buyer's agent is often paid by the seller, and in this case, the seller's agent splits the commission.

A real estate agent can provide you with helpful information concerning a neighborhood, such as how, and why the neighborhood is changing, and by comparing the real estate activity to other neighborhoods.

A real estate agent can recommend you to a mortgage Lender, professional home inspector, attorney, insurance agents, title companies and escrow agents. They can help with information on community based housing services.

Most agents have access to a variety of homes through the Multiple Listing Service. This means that you can get in touch with any real estate agent working in the area in which you want to live, and that person can help you look for a home on a wide scale, in any community. Usually, there is no cost to you for the services they provide.

You should feel comfortable working with the real estate agent, because it can take months before you find the house you want to purchase. The real estate agent is looking for something that suits your individual needs and tastes, and this will happen sooner if you have a good relationship.

One way to find a real estate agent is to get the name of the real estate firm that appears on a "for sale" sign you see as you look around a neighborhood. You want a real estate agent who knows the neighborhood. You can also just walk into a real estate agent's office or ask for a referral from friends and relatives. Talk to the real estate agent about the kind of house you are looking for in your price range. The agent should be able to tell you if there are any homes like that in your price range in that area. A simple calculation to determine the price of the home you can afford can be easily determined by multiplying your annual gross income by 2.5.

BEST COPY AVAILABLE

Example: annual gross income $30,000 x 2.5 = $75,000 priced home.

If you are moving out of state, an agent in your area may be able to recommend an agent familiar with your new location. Normally, the agent at your former location can make referrals to agents in other areas. Many real estate firms have sophisticated referral programs which will list houses available. In most instances, these agencies can provide a list of available properties prior to you relocating.

HOUSE HUNTING RESOURCES

It is important for home shoppers to know how to find houses that are available for sale in the community which they have elected to buy. There are many different resources available to the home shoppers. The following are a few of those resources:

- Most **local newspapers** have daily classified ad sections which feature area homes for sale. Real Estate firms often advertise homes that are for sale in newspapers. Usually weekend editions have expanded coverage and often indicate "Open Houses" which are being conducted in the area. Newspapers also list "For Sale By Owner "or "Builder" ads in the classified section.
- The **Real Estate Shopper Guide** are specific real estate magazines which typically feature selected homes for sale in an area. These are usually printed weekly or monthly, and are often available in vending machines, grocery stores, convenience stores, and banks. Real Estate Shopper Guides are helpful because they generally have full color pictures and detailed information about the homes for sale in the local area.
- The homebuyer can drive through an area and find "For Sale Signs" in front of houses that are available. This is also a good way to spot unadvertised "**For Sale By Owner**" properties. Homebuyers should let friends and relatives know of their plans to purchase a house. Sometimes through networking homebuyers can find homes before they come on the market and are available to the public.
- **The Department of Housing and Urban Development** (HUD), and the **Department of Veterans Affairs** (VA). Both HUD and VA offer acquired properties for sale to the general public. The homebuyer should understand that these homes are usually sold "as is", and often are in need of repair. The homebuyer may have difficulty finding a lender that will allow financing for both the purchase and required repairs for these properties.
- **Local lending institutions** may have foreclosed homes in their inventory. Interested parties should contact the lender's Real Estate Owned (REO) office to find out if any are available. In some cases Lenders may be willing to offer homebuyers special financing incentives in order to sell these houses.
- Many **local municipalities** confiscate property for delinquent taxes. These homes are often auctioned monthly or quarterly and sold to the highest bidder. Information on available properties can usually be obtained from Tax Assessment Departments or from Community Development Departments.

- **Estate Auctions**- Many times when someone dies with no heirs, or files bankruptcy, the property is auctioned off and sold to the highest bidder. Homebuyers who may be interested in estate auctions should be aware that buying a house at an auction usually requires an immediate closing. If the homebuyer is financing the purchase of the property he/she may need to be approved for a mortgage before bidding on the house. In many cases, these sales require that the purchase be made in cash.
- **Owners of Record**- Sometimes homebuyers may find homes that are obviously vacant, but not advertised for sale. Interested parties should find out who the owner is by contacting the local land records office. Sometimes writing the owner and informing him or her that you are interested, can result in a sale.
- In some areas, **non-profit housing agencies and foundations** have been established to develop or renovate housing and make it available for low-to-moderate income families. Homebuyers should check with the applicable state housing agency to see if such programs are available in the desired communities.
- **Other Places** - Call the State Housing Agency for a list of their properties for sale. If you see a house that looks vacant, call the local land records office to get the name of the owners. If you are successful in reaching the owners, you may be able to buy the house at a reduced price.

EXISTING VS PROPOSED / NEW CONSTRUCTION

Existing or resale homes are the most common type of sales. Proposed/new construction is a valuable resource for locating a home. In the case of proposed construction, certain financing programs offer assistance with the down payment and other costs, which can be gained through sweat equity. The borrower's labor may be considered as the equivalent of cash if the borrower can demonstrate his or her ability to complete the work in a satisfactory manner. The lender must document the contributory value of the labor through either the appraiser's estimate or through a cost estimating service. However, delayed work, clean up, debris removal and other general maintenance cannot be included as sweat equity. There can be no cash back to the borrower in these transactions. Sweat equity on a property other than the property being purchased is not acceptable. Compensation for work performed on other properties must be in cash and be properly documented.

BEST COPY AVAILABLE

If materials are furnished by the borrower, evidence of the source of funds used to purchase and the market value of the materials must be provided. The sales contract must indicate the tasks to be performed by the homebuyer during construction.

FINDING A HOUSE

First time homebuyers are often eager to buy a house and frequently fail to take the time to do a thorough job of evaluating each prospect. The average homebuyer looks at approximately 16 to 25 homes before selecting one to buy. Homebuyers should be well prepared for each viewing so that features of various homes are not confused and the possibilities narrowed. Below is a list of "things to remember" when the homebuyer tours each house:

- Take a tape measure, flashlight and camera
- Take down notes about the features of each room
- Use the flashlight to see into dark area, such as the attic or basement
- Check for water damage and inquire about recently repaired area
- Find out what is included in the purchase price and what is not. Some sellers will include some of their appliances, others will not
- Measure the room sizes. This will be beneficial in determining the amount of space a buyer may need
- Inspect the interior and exterior items
- Take pictures of each house if possible and the surrounding homes. The pictures can be valuable later as the homebuyer narrows the purchase possibilities
- Take a look around the neighborhood because it is just as important as the house and property
- Ask the seller or agent questions about the condition of the roof, appliances, heating and cooling systems, electrical and plumbing systems to determine if the house and property have been well maintained

When you look at houses, use the Homebuyers Checksheet below to keep track of their features. It is easy to become confused after looking at a number of houses. Prior to viewing the property, identify your needs on the checksheet. As you view each property, be sure to include the property address, asking price, yearly taxes and any features that it has. This will allow you in the comfort of your home to perform a comparative analysis on each property.

Address: _____

Asking price: _____ YearlyTaxes: _____

Features	Needs	Has
House		
Older		
Newer		
Traditional		
Contemporary		
One-Story		
Two-Story		
Split-Level		
Garage		
Other		
Interior		
House Size (square footage)		
# Bedrooms		
# Bathrooms		
Kitchen Size		
Living Room Size		
Family Room		
Dining Room		
Laundry Room		
Floors / Floor Covering		
Exterior		
Exterior Type		
Landscaping		
Porch		
Deck		
Large Yard		
Mechanical Systems		
Heating and A / C Type		
OTHER		
OTHER		

What To Look For:

- stains on basement walls
- moss, mildew, or stains on lower siding
- stains or mildew on underside of roof
- soggy areas in yard
- eroded areas in walkway or driveway
- roof that sags in the middle
- walls that curve in and out
- windows or doors that look crooked
- porches that lean or sag
- diagonal cracks above doors and windows
- slipping or shifted foundation
- floors that feel spongy or uneven
- inside doors or windows that don't fit
- houses that are built on wood posts or sill beams on ground
- very high heating or air conditioning bills (ask the owner if you can look at the bills)
- leaking plumbing, especially the main water line (turn on the water and look at the pipes)
- main electrical service that is too small (turn on lots of lights and appliances at the same time to see if they blow a fuse or circuit breaker)
- extension cords running a long way
- odd smells, such as sewer gas
- lack of insulation in attic (there should be thick insulation on the floor or ceiling)
- signs of termites or ants
- old flaky paint on sills or trim
- flaky paint on the outside
- floor covering that is worn in large areas
- siding that is wavy or spongy underneath
- roof cover that is seriously worn or has many layers

It is important that you take the time to do a thorough job of evaluating each property before making a decision to buy.

Real estate purchase contracts will vary from location to location. If the homebuyer is working with a real estate agent, the agent will probably use the standard contract that is approved by the local Board of Realtors. Since real estate agents handle the bulk of real estate sales transactions, they generally use purchase contracts that provide both buyer and seller protection.

Whether using a real estate agent or handling the purchase agreement on your own, there are a number of items listed below that should be included in the purchase agreement:

- The full legal description of the property - found on title policies, surveys, or public records in the county recorders office. The street address should also be included.
- The amount of earnest money - a purchase offer is usually accompanied with an "earnest money" deposit. This money serves to assure the seller that the buyer is making an offer in good faith and that you mean business. Because the seller will take his home off the market once a purchase offer is signed, the earnest money offers her/him some protection if the buyer backs out of the deal. The seller will weigh the offer to see if it will result in a successful sale.
- The amount of earnest money given is totally at the buyer's discretion. The earnest money is usually placed with a real estate broker or deposited in an escrow account. If the buyer proposes a small amount of money, the offer may not be considered. On the other hand, if the buyer deposits a customary amount of earnest money, it indicates the sincerity of the buyer's intentions to purchase the home. If for some reason, the buyer changes his/her mind, the seller may be entitled to keep the earnest deposit. The contract should clearly state under what circumstances this money will be refunded. At the closing on the house, the full amount of earnest money will be counted as a credit toward the amount of money needed by the buyer.
- The offer to purchase is usually valid for a limited time from the date of the offer. If the seller is out of town or unavailable, the buyer may want to extend this acceptance period.

The buyer should find out as much as possible about the sellers from their real estate agent. Accurate information is the key to price negotiation when making an offer. It is helpful to know if the seller is really motivated to sell the property. You should also ask the seller or seller's agent questions about the house and

property. The condition of the appliances, heating and cooling systems, roof, the electrical systems and plumbing systems will help determine if the house has been well maintained. The prospective buyer should disclose as little as possible to the seller or his/her agent. For example, the buyer can be at a disadvantage if the seller discovers that the buyers lease is about to expire or has expired. Enclosed is a sample Real Estate Purchase Contract. Review it for familiarity. The real estate agent will assist in filling out the contract when an offer is made. (Review the Real Estate Purchase Contract located in the Forms and Work Sheet Section of your Guide.)

CONTINGENCIES

The purchase offer may include contingencies in addition to the amount of money that you are proposing to pay for the property. Contingencies are conditional events which must happen in order for the buyer and seller to conclude the transaction. All details of the contingencies should be listed in written form on the purchase offer. Some typical contingencies include:

- The buyer's ability to get a specific type, amount and rate of financing.
- The buyer's ability to complete the sale of a present home before a certain date.
- The seller's agreement to let the buyer move in prior to closing.
- The seller's agreement to make certain repairs.
- The items of personal property which may stay or go.
- Appliances
- Window coverings
- Ceiling fan

NEGOTIATING OFFERS

The amount of the offer should be determined after considering the factors listed below:

- The typical sales price of homes in the area which have approximately the same features as the home selected. The buyer can obtain this information by reviewing recent sales transactions at the local courthouse or with your real estate agent.
- The condition of the house and any repairs, or improvements needed. The

BEST COPY AVAILABLE

offer can acknowledge these items, and be adjusted depending on whether the buyer or the seller will correct them

- The amount of money that the homebuyer is pre-qualified to finance
- The availability of similar homes in the area in the desired price range
- How long the house has been on the market. In many cases if the house has been listed for sale for an extended period of time (3 to 6 months), the seller usually is willing to entertain offers less than originally expected
- Has the price already been reduced? If the price has already been reduced, this is usually an indication that the seller is willing to accept less than originally intended
- Is the seller considering other offers at this time? If the seller has several offers on the house now, and this is the house the buyer is really "sold" on, he has to make an offer that is closer to the asking price.

You cannot rely on the real estate agent for assistance in determining what to offer unless the agent is a buyers agent. Remember, in most cases, the agent involved is obligated to get the highest price for the seller. Often, sellers are willing to negotiate their asking price. This is not a hard and fast rule; seller flexibility on the sale price is based on many factors. Some sellers are firm in their asking price and the real estate agent may tell the buyer this. If the buyer can't get the seller to come down to an acceptable price, perhaps the seller will make some additional improvements to the property if the buyer agrees to buy at the seller's price.

Some buyers prefer to "bluff" the seller by offering a price that is well below what they are actually willing to pay. Though this strategy can sometimes pay off, it will occasionally backfire if the seller gets insulted and refuses to negotiate. It is better to be fair and reasonable.

The seller's agent usually knows what price the seller will ultimately accept for the house. The seller's agent may tell the buyer that he or she knows the seller will not accept the offer. Although the agent has a good idea of what conditions will make or break the deal, he or she is legally obligated to present all offers to the seller.

COUNTER OFFER

Once the buyer is satisfied that he/she has included all contingencies in his offer, the real estate agent presents it to the seller. At this point, the seller has one of three options:

Acceptance The seller can accept the buyer's offer with no change or modification.

Rejection The seller can refuse the buyer's offer altogether. There may be several different reasons why the offer is unacceptable. If a real estate agent is involved, he or she may be able to provide the buyer with the seller's objections. If the buyer has the ability and the willingness to resolve the objections he/she may address each and present a new offer.

Counter To The Counter Offer The seller may be in agreement with most of the buyer's offer, and may be willing to negotiate. When making the counter offer the seller would indicate any changes proposed to the buyer's original offer. Once the buyer has received the seller's counter offer, he/she then has the options to accept, reject, or counter the counter offer.

It is likely that the buyer and seller will bargain over the fine points. An offer can be renegotiated several times in the form of counter offers. It is important, however, that the buyer knows when to quit. The buyer must have the ability to meet all conditions once an agreement is made.

The homebuyer should not be discouraged if the offer is not immediately accepted by the seller. Almost all real estate transactions go through the counter offer process. The negotiating process can be nerve-racking, but it is usually well worth the buyer's time and effort in order to get the best price! A buyer's agent can be very helpful to the buyer during the negotiating process. The agent will help the buyer determine the amount of the original offer (not too high, not too low) and will understand the finer points of negotiating a real estate offer.

A pre-purchase, general home inspection involves visual examination of major building systems and components. The intention of the pre-purchase general home inspection is to provide the buyer with useful information about the condition of the residence and identify major deficiencies in the home's structure, its systems and components.

A home inspector is a professional who has been trained to examine the visual condition of residential properties and determine if they are free from discoverable major mechanical (heating, pluming, electrical, etc.) or structural (walls, roof, foundation, etc.) deficiencies.

A Professional Home Inspector will tell you if the roof or heating system will soon need major repair or replacement, and whether the electrical and plumbing systems are functioning properly. The inspector will let you know whether the major mechanical/structural systems are in overall satisfactory condition.

A Professional Home Inspector will locate discoverable major mechanical/structural defects and suggest repair methods. There are no problems of this type, mechanical or structural that cannot be remedied. Professional Home Inspectors are generalists, much like medical general practitioners. They know how the home's many systems and components work, both independently and together, and they understand how and why they fail. You should expect a permanent report of your inspection-either written, or video taped. The report should describe the condition of the home at the time of the inspection based upon the inspector's visual observations.

Professional Home Inspectors throughout the country are generally expected to follow the Standards of Practice established by the American Society of Home Inspections (ASHI). The "Standards of Practice" are guidelines that specify the components of a home to be included in an inspection: the heating and air conditioning systems, the plumbing and electrical systems, the roof, gutters and down spouts, attic, visible insulation, visible drainage systems, walls, ceilings, floors, windows, doors, garage, foundation, basement, etc.

The inspection is important and strongly recommended because you learn how to maintain the home you have chosen and you become an informed buyer. You should know about the home prior to buying and making that

investment. By following the inspector, by observing and asking questions, you will learn a great deal about your new home and how to maintain it. This valuable information will serve you for many years after you move in. The inspector is paid by the person who selects the inspector and orders the inspection. The buyer selects the inspector and pays the inspection fee directly to the inspector.

HOW TO SELECT A QUALIFIED, PROFESSIONAL HOME INSPECTOR

The key professional qualifications of a Professional Home Inspector are experience, standards, and ethics. You should not leave your search until the last minute. Interview a Professional Home Inspector as soon as you find the right house.

Here are some important questions to ask:

- Is the inspector a Certified Member of the American Society of Home Inspector?
- How long has the inspector been in business as a Professional Home Inspector?
- Is the inspector specifically experienced in residential inspections?
- Does the company do any repairs or improvements or make referrals to those who do? Such offers and/or referrals constitute an apparent conflict of interest and would be grounds to reject the inspector.
- How long will the inspection take? (The average is 2 to 2 1/2 hours).
- What will it include? (Get specifics.)
- What will it cost? (The national average is $250.00).
- Does the inspection include a permanent report: written, video taped, etc.
- Does the inspector encourage the client to attend the inspection? This is a valuable educational opportunity and he/she should welcome the client along.
- Does the inspector participate in continuing education programs to keep his/her qualifications current?

REVIEW QUIZ I

1) Name two key factors that a homebuyer should consider in selecting a home.

2) What are four things that a homebuyer should look for in a neighborhood?

3) Identify four resources that are available to assist a homebuyer in finding a house in a specific community.

4) What is sweat equity?

5) Name five things that should be remembered while touring a house. Why are they important?

6) Name the two basic types of a real estate representatives.

7) Why is a professional home inspection important?

8) What is MLS?

9) List five key things to remember when you are preparing to tour a house.

10) What calculation is used when determining the price home you can afford?

11) Give a brief description of five items that should be included in the purchase agreement.

12) List three factors that should be considered when negotiating an offer to purchase?

13) What are contingencies?

14) What is a counter offer?

15) What is a counter to a counter offer?

Module 3
SHOPPING
for your
Loan

NOTES

To obtain financing for the purchase of a home can be an intimidating process for a home buyer. The following three Sections are designed to minimize this frustration by highlighting the steps involved in the process.

FIND THE RIGHT LENDER

To identify the right lender, you must first have a clear understanding of the various types of lenders available. The home financing system in the United States includes many private and public institutions. Home mortgages are made and processed by primary market lenders and these mortgages are often insured and/or sold to "secondary market" institutions. Although the types of lenders originating mortgages are growing, there are five categories of "primary market" lenders active in the residential lending market. They include:

- **Commercial Banks** that primarily specialize in consumer and construction lending.
- **Savings and Thrift Institutions** that provide residential mortgages. They are regulated and their deposits are insured by FDIC (Federal Deposit Insurance Corporation) or corresponding state agencies.
- **Mortgage Bankers** that are independent firms or subsidiaries of commercial banks that originate mortgages. They focus exclusively on providing mortgages and they do not accept deposits. They typically originate mortgages and then sell them to other financial institutions. These purchasers constitute the "secondary market." Mortgage Bankers are not federally regulated like commercial banks.
- **Mortgage Brokers** who differ from mortgage bankers in that they do not actually make loans. Instead, they operate as "correspondence" for a variety of lenders and process loans that are actually originated by the lenders. Mortgage brokers are familiar with different lines of products and can assist a homebuyer in locating financing with unique or less than perfect credit. Mortgage brokers are also not regulated like commercial banks.
- **Credit Unions** that are private banking organizations that frequently have very good mortgage rates for its members. A number of credit unions will offer first mortgages to its members. Credit unions are generally regulated by federal or state agencies.

You should use the services of the lender that best suit's your needs based on location, type of products offered, and the quality of service they provide.

The term "secondary market" refers to financial institutions that purchase mortgage loans originated by other lenders. They are often large banks, life insurance companies, pension funds and federally or state chartered institutions. The most significant purchasers of mortgages on the secondary market are Fannie Mae and Freddie Mac. Both are large, shareholder-owned and privately managed corporations. They are federally chartered and have federal statutory obligations to serve the needs of lower income households and other underserved populations. As a result, both organizations have made affordable new lending products available to originating lenders.

Ginnie Mae plays a similar role as Fannie Mae and Freddie Mac. They all purchase government insured or financed mortgages. However, unlike Fannie Mae and Freddie Mac which are quasi government corporations, Ginnie Mae is a government corporation under the jurisdiction of the Department of Housing and Urban Development (HUD).

The secondary market allows lenders that originate residential mortgages to sell some or all of their portfolio to secondary market purchasers. By doing so, lenders can replenish their cash so that additional financing can be made available. The underwriting and other criteria set by the secondary market greatly impacts the lending practices of most mortgage lenders.

CONVENTIONAL MORTGAGE AND INSURANCE PRODUCTS

Mortgage products vary in their requirements for down payment, qualifying ratios, loan-to-value ratios, credit reviews and cash reserves. Some of the best deals come with income restrictions (low and moderate income home buyers only). To understand these products, it is helpful to divide them into two broad categories; conventional loans and government-guaranteed or insured programs.

The **Conventional loans** of years ago required a 20% down payment. These loans have now joined many other loan products which require as little as a three to five percent down payment, and they have more flexible underwriting criteria. This explosion of new loan products provides an increased opportunity for first time home buyers to move into homeownership. This increased flexibility and corresponding risk has occurred as a result of such factors as:

- greater sophistication and automation in the mortgage lending industry

- establishment of Community Reinvestment Act (CRA) requirements
- increased competition for customers
- availability of private and government sponsored mortgage insurance
- existence and influence of the secondary market

FANNIE MAE'S COMMUNITY HOMEBUYERS PROGRAM

In 1994 Fannie Mae unveiled a mortgage product, "**Fannie 97**", that required only a three percent down payment, one month mortgage reserve, and standard underwriting ratios of 28%/38%. This program is one of the most popular program for low and moderate income home buyers and is available through a wide variety of mortgage lenders. The program provides for higher qualifying ratios, a five percent down payment with at least three percent from the purchaser. This program also allows flexibility regarding non-traditional credit histories. Debt to income ratios of 33%/38% are permitted and even higher ratios in certain circumstances. Home buyer education is required for participation.

FREDDIE MAC'S AFFORDABLE GOLD PROGRAM

Freddie Mac's **Affordable Gold Program** has provisions for a 95% loan-to-value ratio, and it has flexibility regarding non-traditional forms of credit, reserve requirements, and qualifying ratios. Of particular interest, the Affordable Gold Program does not use a "front end/top" (housing expense to income) ratio. Rather it utilizes a single "back end/bottom" (total debt-to-income) ratio. Home buyer education is required for participation.

Lenders often refer to the Fannie 97 Program and the Affordable Gold Program as the "3/2 Program" which refers to the requirement that at least three percent of the down payment come from the buyer and two percent can come from other sources.

PRIVATE MORTGAGE INSURANCE

Conventional financing requires mortgage insurance on all loans in which the loan-to-value (LTV) exceeds 80%. This insurance is referred to as Private

Mortgage Insurance or PMI. There are eight private mortgage insurance companies. The insurance premium is the same for all eight firms and is typically added to the mortgage interest rate. The mortgage lender originating the loan selects the mortgage insurer.

GOVERNMENT FINANCED AND INSURED PROGRAMS

There are numerous direct lending, subsidy, and mortgage insurance products available through federal, state and local agencies. Direct lending is provided through federal Rural Economic and Community Development (RECD - formerly the Farmers Home Administration), state housing finance agencies, and various local governments. Mortgage insurance or loan guarantees are provided through the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and RECD.

FHA administers numerous mortgage insurance programs. Although there are no income restrictions, most FHA insured financing is provided to lower income, first-time home buyers.

VA guarantees mortgages for veterans of the armed services, those currently in the armed services and their spouses. VA guaranteed mortgage guidelines are similar to FHA except, a loan-to-value ratio of 100% is allowed.

RECD administers several programs for low to moderate income families who want to buy new or existing homes in rural areas. The homeownership loans may be used for building, buying or improving a home.

State housing finance agencies generally issue tax-exempt mortgage revenue bonds (MRBs) to be used for family mortgages with below-market interest rates. Federal regulations outline both income and house price maximums. Some states use part of their MRB authority to issue Mortgage Credit Certificates (MCCs). Homeowners use MCCs to lower their taxable income, thereby reducing their tax burden and increasing their disposable income.

State and local governments offer many homeowner programs for lower income and other underserved households. Some are funded with federal funds, or state/local originated housing trust fund revenues. These programs offer local flexibility and have favorable underwriting and repayment terms.

Prior to applying for a loan/mortgage for your home, you need to understand the various type of loan products available, and the specific characteristics of each. The prevailing interest rates and loan type will greatly influence the evaluation process when trying to qualify for a mortgage. The most common types of mortgages are described below.

The standard fixed-rate loan is the most common for first time home buyers. It has a fixed interest rate, a fixed principal and interest payment and is fully amortized - that is, the loan will be completely paid off - over a specified number of years. The most common is the 30-year mortgage.

Payments on a fixed-rate mortgage are almost always structured on a monthly basis. A portion of each monthly payment covers the interest due and another portion is applied toward the reduction of the principal balance. Regular payments will systematically reduce the loan balance until the loan is paid in full. The standard fixed-rate mortgages are simple to understand and they have predictable payments. It should be added that even though the monthly principal and interest portion of the monthly payment is fixed, the monthly payment may be adjusted if property taxes increase or the cost of hazard insurance changes. Fixed-rate mortgages are ideal for families that plan to live in their homes for a long period of time, or families that like the certainty a fixed-rate mortgage offers.

Adjustable-rate mortgages (ARM) are generally for 15 to 30 years and have interest rates that are adjusted periodically which potentially changes the monthly payment amounts. The initial interest rate on an ARM is usually substantially lower than the rate for fixed-rate mortgages, but adjustment in the payment generally occurs every one, three or five years based on money market conditions. This can cause the monthly payment to increase or decrease.

The interest rate on an ARM does not automatically change at adjustment time. A clear understanding of the following factors will explain why and therefore, must be considered when contemplating an ARM:

- **Adjustment period** - By definition, an adjustable-rate mortgage has the potential for rate and payment changes at specified predetermined periods every year, three years, or five years. Other adjustment periods vary from six months to 10 years. Some ARM's combine two adjustment periods. For example, a 3/1 ARM has a fixed rate for the first three years and then adjusts annually for the remaining life of the loan.

- **Caps** are limits placed on how much the interest rate can fluctuate. The "adjustment cap" is the limit on how much the interest rate can change at each adjustment period. The "lifetime cap" is the limit on how much the rate can change over the life of the mortgage. Caps can limit increases by either a dollar amount or a percentage. The most common interest rate caps specify a 1% to 3% maximum rate increase per adjustment cap, and a 4% to 6% maximum rate increase per lifetime cap.
- **Index** is the measurement used by lenders to determine any changes to the interest rate charged on ARM's. The interest rate on an ARM is determined by an index. If the index increase, the interest rate will increase unless an interest rate cap has been reached. The most widely used index is the one year Treasury Bill Index.
- **Margin** which represents the lender's cost and profit for doing business is added to the index rate which determines the interest rate for the upcoming period. The size of the margin will vary depending on the index used. Once the lender has specified the margin, it will remain fixed. The margin is a critical factor to consider when comparing ARM's because it can have a significant impact on payments.

On a one-year ARM, adjustments are made annually with each adjustment typically limited to a 1% to 2% increase. A lifetime maximum cap of 6% is common. One-year ARM's offer an attractive initial interest rate to borrowers who are willing to accept the uncertainty of future rate and payment changes. Three and five year ARM's have adjustment periods of three and five years respectively. Each adjustment is typically limited to a 2% increase with a lifetime cap of 6%.

The primary advantage of an ARM is that it provides a lower interest rate initially, in return, for taking a chance with the market that interest rates will be adjusted periodically. However, this lower initial rate often enables a homebuyer to qualify for an ARM loan when she or he would not have qualified for a fixed-rate loan.

There are significant drawbacks to ARM's for lower income buyers, however. Although there are caps on increases, possible future interest rate increases may result in significantly higher monthly mortgage payments. ARM's are best suited for those who expect an increase in income in the future years and/or do not expect to live in the home for more than five to seven years.

Young families who are just starting their careers are often good candidates for ARM loans.

Convertible Mortgages - Typically, have a single established fixed-rate for three, five or seven years, after which they are converted to market rates for the remainder of the 15 to 30 year term. Like the ARM, this mortgage also provides lower interest rates in earlier years. However, the unpredictability of interest rates over time could result in a higher monthly payment at conversion. The three, five or seven year interest rate is typically higher than an ARM and lower than a straight fixed 30 year amortized loan.

Temporary Buydowns - Often, termed "BUYDOWNS" are fixed-rate or adjustable rate mortgages that permit homebuyers to make monthly payments for one or two years at 1% or 2% below the first year's mortgage note rate. Generally, during the first year of the mortgage, the homebuyer will pay 1% to 2% below the note rate and the second year, 1% below the note rate. The temporary buydown differs from an ARM in that the difference in the amount paid monthly and the note rate is deposited in an escrow account at closing. A buydown agreement is signed with the escrow agent agreeing to pay the monthly difference to the lender each month. Funds for the buydown escrow account can come from a gift, the home buyer, a state or local government agency. The advantage of a buydown is that it allows you to qualify for the loan at the lower interest rate.

FHA REHABILITATION MORTGAGE INSURANCE SECTION 203(K)

This program allows home buyers to purchase and rehabilitate single family properties with one loan/mortgage. Historically, the program has been under-utilized. However, within the past few years the loan origination process was streamlined, and the authority to make loan decisions was delegated to local FHA Offices.

COMPARISON SHOPPING

As a prospective homebuyer, there are several factors that you must consider before applying for a mortgage. In addition to the type mortgage (fixed-rate, ARM, etc.) and the various mortgage products available, there are certain key terms that the novice homebuyer should understand about the products offered to effectively compare and decide which is best. At a minimum, you should have a general idea about the following:

- **Down payment** requirements vary by mortgage. Some lenders offer a 95% LTV which requires a 5% down payment. Under certain programs, many lenders will allow up to 2% of the 5% down payment to come from a gift, a grant from a non-profit organization, or from a federal, state or local government agency. Fannie Mae offers a 3% down payment program. FHA offers a 3% down payment on homes selling for $50,000 or less.
- **A discount point** is equal to 1% of the loan amount (on a $70,000 loan, a point would be $700). Discount points can be thought of as prepaid interest because they increase the lender's yield on loans without raising the stated interest. Each point is approximately 1/8 percent added to the interest rate. For instance, an 8% loan with 2 points is roughly equal to 8 1/4% loan with no points. The more points required, the more cash is needed at closing because discount points cannot be financed. The fewer points required, the higher the interest rate. Prospective homebuyers must be aware of lenders and brokers that charge excessive points and rates.
- **Annual Percentage Rate (APR)** is the total yearly costs for the mortgage stated as a percentage of the loan amount. The APR is a better source for comparison of mortgage costs than the interest rate alone.

1) Explain the differences between the primary market and the secondary market.

2) What is PMI?

3) What does the acronyms FHA and RECD mean?

4) What are the two major categories of mortgages?

5) What is the 203(k) Program?

6) Identify three key factors that a prospective home buyer should consider when loan shopping.

MORTGAGE LOAN APPLICATION

60

After your offer to purchase the property has been accepted and you have identified the lender you will use, your next step is to apply for a mortgage loan.

Initial Interview - Typically, the initial interview will be held in the lender's office and takes about an hour. During the interview the lender will ask questions related to income, expenses, credit history, employment and the terms of the offer to purchase the property. Some lenders permit the initial interview to be conducted over the telephone. At the conclusion of the interview, you will have 1) completed an application, 2) been pre-qualified by the lender, 3) paid a fee for the credit report and appraisal, 4) received a list of additional information needed for loan processing, 5) received the HUD handbook on settlement costs, and 6) received an ARM disclosure (if applicable).

Mortgage Loan Application - is in essence an application supplied by the lender for the borrower to apply for a mortgage loan. A checksheet summarizing the information that most lenders require is included at the end of Section III of this module in your Guide. The completed application must be signed and dated by you. A sample copy of the Loan Application is included in the Forms and Work Sheet section of your Guide.

Pre-Qualifying - Once you have completed the mortgage loan application, the lender will perform pre-qualification calculations to determine whether your monthly income is adequate enough to support the monthly payments on the loan amount you requested. Some lenders at this point may also run an in-file (one repository) credit report to determine whether there are major credit problems that would prevent you from being approved for the loan. The pre-qualification process involves simple calculations that you can perform prior to ever applying for a mortgage. It should be noted at this point that pre-qualification is not to be confused with pre-approval. Pre-

qualifying merely lets the lender know "how much" mortgage you would qualify for under certain mortgage conditions based on your gross monthly income.

The pre-qualification worksheet and sample factor table can be used to determine the loan amount that you could qualify for based on your gross monthly income. Using the example below and the Sample Factor Table provided, fill in the blanks and complete the worksheet by performing the simple calculations as instructed on the worksheet.

Example:

Borrower and Co-borrower - Mr. & Ms. Atlast
Gross Monthly Income (both) - $3,600.00
Total Monthly Debt Payments - $612.00
FHA Qualifying Ratios - housing is 29%
- total debt is 41%
Term on the mortgage is 30 years
8% fixed interest rate

Pre-qualification Worksheet

Borrower _____ Co-Borrower _____

Gross monthly income $_____(1)

Gross Monthly Income x _____% = $_____(2)
Housing Ratio

Gross Monthly Income x _____% = $_____(3)
Debt To Income Ratio

Total Monthly Debt Payments = $_____(4)
(Any debt with 6 months or more remaining)

Subtract Line (4) from Line (3) =
$_____(5)

Maximum Monthly Mortgage Payment Allowed

Enter the lesser amount from Line (2) or (5) $_____(6)

Escrows

Multiply Line (6) by 20% = $_____(7)

Subtract Line (7) from Line (6) $_____(8)
Maximum principe aplus interest payment

Affordability

Term of Mortgage _____

Interest Rate Factor _____
Factor Table

Divide Line (8) by _____ = $_____(9)
Factor

Multiply Line (9) by $1,000.00 = $_____(10)
MaximumMortgage Amount

SAMPLE FACTOR TABLE

Interest Rate	15-Year Mortgage	20-Year Mortgage	30-Year Mortgage
6.00%	$8.44	$7.16	$6.00
6.50%	$8.71	$7.46	$6.32
7.00%	$8.99	$7.75	$6.65
7.50%	$9.27	$8.06	$6.99
8.00%	$9.56	$8.36	$7.34
8.50%	$9.85	$8.68	$7.69
9.00%	$10.14	$9.00	$8.05
9.50%	$10.44	$9.32	$8.41
10.00%	$10.75	$9.65	$8.78
10.50%	$11.05	$9.98	$9.15
11.00%	$11.37	$10.32	$9.53
11.50%	$11.68	$10.66	$9.91
12.00%	$12.00	$11.01	$10.29

The maximum mortgage amount that Mr. & Ms. Atlast would qualify for is $94,168.00. If you got this answer congratulations. If not check your math, it is probably a math error. Additional Pre-Qualification Worksheet are included at the end of your Guide. Make copies and as the factors on the worksheet changes so will the qualified maximum loan amount.

It should also be noted that if the loan amount requested on Mr. and Ms. Atlast's loan application is less than or equal to the maximum loan amount on the Pre-Qual Worksheet ($94,168), the lender will advised them that they pre-qualified for the loan amount requested. If however, the loan amount reflected on the loan application is greater than $94,168, the lender would apprise them of the maximum loan amount for which they can qualify, and recommend that steps be taken to reduce the requested loan amount.

Good Faith Estimate of Settlement Costs - within three days of applying for the loan, the lender will send you a Good Faith Estimate of what it will cost you to close or settle on the loan. The document provides an itemized break down of fee amounts for closing costs and prepaid expenses.

GOOD FAITH ESTIMATE

APPLICANT _____ APPLICANT _____
PROPERTY ADDRESS _____ SALES PRICE _____ TERM ____ YRS.
_____ LOAN AMOUNT $ _____ RATE _____ %
DATE PROVIDED / MAILED _____ TYPE OF LOAN ____ VA ____ FHA ____ CONV ____ OTHER
The numbers in the left hand column of the estimated settlement charges correspond to the line / item numbers of the HUD-1.

It is pointed out that we have no authority on the set fees of the professional services, such as title examinations and surveys. This is merely a Good Faith Estimate of these costs.

You are applying to _____
for a mortgage loan. We estimate that you are likely to incur the following charges.

ESTIMATED CLOSING COSTS		ESTIMATED PREPAID ITEMS	
801 Loan Orig. Fee (_____%)		_____ 901 *Int. (Based on ____ days)	$_____
802 Loan Disc. Fee (_____%)		_____ 902 1st year PMI Premium	_____
803 Appraisal Fee		_____ 903 Hazard Insurance	_____
804 Credit Report		_____ 904 Commitment Fee	_____
806 VA Funding Fee		_____ 1001 ___ Mos. Hazard Ins.	_____
807 Assumption Fee		_____ 1002 ___ Mos. Mtg. Ins.	_____
808 _____		_____ 1004 ___ Mos. R / E Taxes	_____
809 Underwriting Fee		_____ 1005 ___ Annual Assessments	_____
810 _____		_____ 1006 Flood Insurance	_____
811 _____		_____ 1008 ____ Mos.	_____
1101 Settlement or Closing Fee		_____ TOTAL	_____
1102 Title Search		_____ DETAILS OF FINANCING	
1103 Title Examination		_____ Purchase Price / Amt Exist Liens	
1108 Title Insurance		_____ Closing Costs	_____
1201 Recording Fees		_____ Prepaid Items	_____
1301 Survey / Mortgage Verification		_____ TOTAL	_____
1302 Pest Inspection		_____ Less: Mtg. Amount	_____
1105 Document Preparation Fee		_____ Other Financing	_____
1203 Document Stamps		_____ Other Equity	_____
1204 _____		_____ Cash Deposit	_____
1303 _____		_____ Costs Pd. by Seller	_____
1304 _____		_____ EST. CASH TO CLOSE	_____
1305 _____		_____ ESTIMATED MONTHLY PAYMENTS	
TOTAL ESTIMATED CLOSING COSTS		Mortgage P&I	_____
		Est. Hazard Insurance	_____
		Est. Mortgage Insurance	_____
		Est. R / E Taxes	_____
		OTHER _____	_____
		TOTAL MONTHLY PAYMENT	$ _____

*This interest calculation represents the greatest amount you could be required to pay at settlement. The actual amount will be determined by which day of the month your settlement is conducted.

THIS FORM MAY NOT COVER ALL ITEMS YOU WILL BE REQUIRED TO PAY IN CASH AT SETTLEMENT. FOR EXAMPLE, HOMEOWNERS INSURANCE PREMIUMS MUST BE PAID ONE YEAR IN ADVANCE DIRECTLY TO THE INSURANCE AGENT. EXACT FIGURES CAN ONLY BE KNOWN AT THE TIME OF SETTLEMENT.

You have the right to select the Insurance Agency, Broker, or Underwriter of your choice. The insurance certificate MUST BE delivered to our office at least 3 business days before closing. Coverage must be for at least the amount of your mortgage. The binder or policy MUST BE in effect the date of closing. Flood insurance must be obtained, if application.

NOTICE TO APPLICANTS

This Notice is to you as required by the right to Financial Privacy Act of 1978 that (The Department of Veterans Affairs or Department of Housing and Urban Development, whichever is appropriate) HAS A RIGHT OF ACCESS TO FINANCIAL RECORDS HELD BY FINANCIAL INSTITUTIONS IN CONNECTION WITH THE CONSIDERATION OR ADMINISTRATION OF ASSISTANCE TO YOU. FINANCIAL REPORTS INVOLVING YOUR TRANSACTIONS WILL BE AVAILABLE TO (VA OR HUD) WITHOUT FURTHER NOTICE OR AUTHORIZATION BUT WILL NOT BE DISCLOSED OR RELEASED TO ANOTHER GOVERNMENT AGENCY OR DEPARTMENT WITHOUT YOUR CONSENT EXCEPT AS REQUIRED BY LAW.

The undersigned hereby acknowledges receipt of the above Good Faith Estimate and RESPA booklet.

By: _____ By: _____
Borrower Date Co-Borrower Date

BEST COPY AVAILABLE

Closing Costs are costs, in addition to the price of the property, that are paid at closing. A portion of the closing costs may be financed on an FHA-insured or VA guaranteed mortgage. If financed these costs will increase the loan amount and will be included when computing debt-to-income ratios.

Prepaids are advance deposits (Real Estate taxes, hazard insurance, etc.) paid at closing by the borrower that are placed in an escrow account and dispersed by the lender as they become due.

Truth in Lending Statement - is another document that your lender will generally provide within three days of applying for the loan. This Statement provides a summary of how your loan will be repaid. It reflects the APR, total finance charges, the number of payments and their amounts, and the total amount that you will pay in interest and principal over the life of the loan.

Disclosure Statement of Loan (required by Federal Reserve Regulation Z)

BORROWERS: LENDER: LOAN NO.
DATE
PROPERTY ADDRESS:

Annual Percentage Rate The cost of your credit as a yearly rate.	Finance Charge The dollar amount the credit will cost	Amount Financed The amount of credit provided to you or on your behalf.	Total of Payments The amount you will have paid after you have made all payments as scheduled.
%	$	$	$

*Estimated amounts
You have the right to receive at this time an itemization of the Amount Financed.
____I want an itemization ____I do not want an itemization

Your Payment schedule will be:

Number of Payments	Amount of Payments	When Payments are Due	

Variable Rate Feature:
__Not Applicable
__My loan contains a variable

Property Insurance: Property Hazard Insurance from an insurer acceptable to Lender is REQUIRED.
You may obtain property insurance from anyone you want that is acceptable to this institution. If you get the insurance from _____ you will pay $_____ for the term of _____

Credit Insurance Election: CREDIT LIFE INSURANCE AND CREDIT DISABILITY INSURANCE are not required to obtain this loan, and will not be provided unless you sign below and agree to pay the additional cost for this insurance. THIS INSURANCE IS NOT IN EFFECT UNTIL YOU APPLY FOR IT, THE INITIAL PREMIUM IS PAID, AND THE INSURANCE COMPANY ISSUES THE POLICY.

Type	Premium	Signature
Credit Life	$	I want credit life insurance: Signature

Credit Disability	$	I want credit disability Ins Signature
Credit Life and Disability	$	I want credit life and disability insurance Signature
I do not want any such insurance or information on it	$	Signature

Security: You are giving a security interest in:
the goods or property being purchased.

(brief description of other property)

Late Charge: If a payment is late, you will be charged $ _____ / _____ %
of the payment.

Prepayment: If you pay off early, you ___ may ___ will not have to pay a penalty.
___ may ___ will not be entitled to a refund of part of the finance charge.

Assumption: Someone buying your house ___ may, ___ may not subject to conditions, be allowed to assume the remainder of the mortgage on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

Please acknowledge receipt of the above information by signing below:

I ACKNOWLEDGE RECEIPT OF A COPY OF THE FOREGOING DISCLOSURE STATEMENT WITH ALL BLANKS APPROPRIATELY

FILLED ON THE _____ DAY OF _____, _____

_____
Borrower

_____
Co-Borrower or Agent

If mailed, mailed by _____ Date

Property appraisal - the purpose of the appraisal is to provide the lender with written documentation of the value of the house. The lender will order the appraisal after the loan application is completed. The lender then uses the appraisal to determine the loan-to-value ratio. If the value is not sufficient to obtain the requested loan amount, you may 1) renegotiate the price of the house with the seller, 2) make an additional down payment, or 3) decide not to buy the house. The seller can dispute the appraised value or request a review of the appraisal by the lender. The lender will also use the appraisal to compute the loan-to-value (LTV) ratio by dividing the loan amount by the appraised value.

After the loan application is completed, the lender must verify and confirm all the information provided. This is an intense evaluation process and generally takes from four to six weeks to complete.

LOAN PROCESSING

Once the loan application has been submitted, THE WAIT begins. It can take up to six weeks for you to receive loan approval. During the wait between application and approval, it is common for buyers to be apprehensive. However, "NO NEWS IS GOOD NEWS". If the loan processor has a problem or needs additional information, you will be contacted by telephone or mail for this information. If working with a housing counselor, have him/her occasionally check with the lender on how things are going. However, don't make a habit of calling the loan officer or loan processor too often. It will only cause delays.

During the loan processing phase, the lender is confirming and verifying the information you provided. For example, the Verifications of Employment and Verifications of Deposit are sent out, the appraisal and your credit report are ordered, your application and supporting documentation are reviewed, etc. As the lender receives confirmation of the information you provided, loan processing is continued.

Monthly Income - Monthly income refers to the "Gross" amount of income you receive monthly. If you are paid an annual salary, it's that salary divided by 12 months. For example, if your annual salary is $36,000 a year, your monthly gross income is $3,000 ($36,000 divided

by 12 months). If you are paid on an hourly basis and work 40 hours a week, your gross monthly income is computed by multiplying your hourly rate by 2080 hours and then dividing by 12 months. For example, if your hourly rate is $10.00 an hour, your monthly gross income would equal $10 X 2080 divided by 12 = $1,733.33. The lender will use your gross monthly income to determine whether you have sufficient income to support the mortgage payments.

Loan Limits & Terms - The maximum amount of money that can be borrowed to purchase a home will vary depending on the mortgage product and **loan limits** established for the area. Because of these variances, you should ask the real estate agent or your lender about the maximum loan amount for your area. It should also be noted that each borrower is expected to make a minimal down payment. Only certain mortgage programs provide 100% financing. The **term** on a mortgage simply refers to the number of years that you have opted to repay the debt, i.e. 15 years, 20 years, 30 years. The mortgage term will greatly impact the monthly mortgage payment.

PITI is a phrase used in the mortgage industry that refers to four components of a monthly mortgage payment.

P - refers to the **principal** portion of your payment.
I - refers to the **interest** portion of your payment.
T - refers to the property **taxes** portion of the payment
I - refers to the **insurance** portion of your payment.

The PITI is used by the lender to determine whether you can afford the mortgage. It is used to compute the housing expense to income ratio. The taxes and insurance amounts paid monthly are placed in an escrow account and the lender will pay the real estate taxes and insurance premiums from that account as they become due.

Qualifying Ratios - As part of the qualifying process, the lender will use ratio calculations to determine whether you have adequate stable income to support the monthly mortgage payments. These calculations are often referred to as **debt-to-income ratios**. There are

two ratio calculations performed by the lender: one to determine the housing debt to income debt ratio and the total monthly debt to income ratio. To demonstrate adequate monthly income to support the mortgage payment, qualifying **top/front ratios** (housing to income) will range from a maximum of **28% to 31%**. To demonstrate your ability to pay your mortgage and other recurring monthly obligations, qualifying **bottom/back ratios** (total debt to income) will range from a maximum of **38% to 43%**.

To compute the housing expense ratio (top/front), the lender will divide the PITI by the gross monthly income. To compute the total monthly debt ratio (bottom/back), the lender will divide the total monthly debt including the PITI by your gross monthly income.

Using the Debt and Income Worksheet, and a proposed monthly mortgage payment to compute your debt to income ratios.

DEBT AND INCOME RATIO WORKSHEET

Your Gross Monthly Income	$_____	
Other Gross Monthly Income	$_____	
Total Gross Monthly Income	$_____	A
Monthly Installment Debts	$_____	
Monthly Revolving Debts	$_____	
Total Monthly Debts	$_____	B
RATIOS:		
Proposed Monthly Mortgage Payment	$_____	C
Top Ratio (Divide C by A)	_____%	
Bottom Ratio (Add B plus C and divide by A)	_____%	

QUALIFYING CRITERIA

Research has shown that the most frequently used excuse for not purchasing a home is that the prospective home buyer feels they cannot qualify for the loan. Research has also shown that in most instances this is not the case. The following paragraphs provide a brief explanation of four key factors which are used by lending institutions to determine a borrower's qualification for a mortgage loan.

- stability of income
- adequacy of income
- sufficient income
- creditworthiness

STABILITY OF INCOME

Of prime consideration to any lending institution is whether the borrower's income is expected to last during the most critical phase of the mortgage. The first five years of a mortgage is defined as the "most critical phase" because most defaults occur on a mortgage during this time frame.

To ascertain the potential stability of the borrower's income, the lending institution will send a "Verification of Employment" (VOE) to the borrower's employer to determine the start date of employment, position title, the current year-to-date and previous years salary, any bonus or overtime paid on a regular basis, and the probability of continued employment. This form cannot be hand carried to the employer by the borrower.

The VOE must be signed and dated by the borrower authorizing the employer to release this information to a third party, the lender. The VOE is then mailed to the employer to complete, sign, date, and return to the lender.

Once the completed VOE is returned to the lender, it is examined for completeness and the information analyzed. The income amount reflected by the borrower on the loan application is compared with the income amount shown on the VOE. The borrower must provide an explanation for any discrepancies. The lender will also analyzed the length of time that the borrower has worked in the same line of work experience, review the employer's comments, and the probability of continued employment. Although, a short time on the job is not a basis to reject a borrower, if a pattern of job hopping without promotional potential or skills development is evident, the lender may question the probability of the borrower remaining employed; a key factor when evaluating the stability of the borrower's income. If the borrower has been employed with the current employer for less than two years, VOE's will be sent to all employers covering a two year period.

On the other hand, if the borrower is self-employed, the lending institution will request at a minimum, the last two years of income tax returns, and financial statements for the business. Business financial statements include a Year-to-Date Balance Sheet, and a Profit and Loss Statement. The lender may in some instances request an income projection statement for the business for the next two to five years. Once the financial documents are received, the lender will perform a financial analysis to ascertain the probability of the business' continued operation which will have a direct impact on the stability of the borrower's income.

ADEQUACY OF INCOME

Generally, when most borrowers indicate that they will not quality for a loan, their reference is to the adequacy of income, or a high income-to-debt ratio.

The lender's assessment of risk is measured basically by determining whether the borrower has an adequate amount of stable income to support the mortgage payment and other financial obligations. The desirable ratios will vary slightly depending on the loan type. For example, on an FHA-insured mortgage or a VA guaranteed loan, the ratios are 29% / 41%. On a conventional loan, the ratios are 28% / 38%. The higher the ratios, the greater the lender's risk which reduces the borrower's chances for approval.

Another key factor of prime consideration to lenders is the source and adequacy of the borrower's funds to close the mortgage. Borrowers are prohibited from borrowing monies to close on a mortgage without full disclosure of these intentions to the lender. A minimum investment of earnest money is required on all mortgages. Acceptable sources of earnest monies include savings and checking accounts, gifts from relatives, savings bonds, employer relocation pay, net proceeds from the sale of a previous home, etc. During the loan application process, the lender processing the loan application will request the borrower's most recent two months of bank statements to verify funds available for closing. Bank statements can also be used with the VOE to determine the borrower's ability to save any additional money needed to close the loan.

The lender will also send to the institutions designated by the borrower a **"Verification of Deposit"** (VOD). The borrower will be asked to sign the form authorizing the repository to release this information to a third party, the lender.

As with the VOE, this form cannot be hand carried to the depository by the borrower or their real estate agent.

It should be pointed out, that in some instances, lending institutions have developed an **Information Disclosure Authorization** form that you may be asked to sign during the initial interview. The authorization form is sent to employers, banks, landlords, etc. Instead of having you sign several VOE's or VOD's. The form contains the same authorization to release the information to the lender.

INFORMATION DISCLOSURE AUTHORIZATION

TO WHOM IT MAY CONCERN:

I/we hearby authorize you to release to _____ or it's assigns the following information for the purpose of verification:

Employment history, dates, titles, hours, income etc.
Banking and saving accounts of record
Mortgage loans(s), landlord rating and payoff information
Any other information deemed necessary in connection with a consumer credit report for transactions which involve real estate

This information is for the confidential use in compiling a mortgage loan credit file for a VA, FHA or conventional home loan.

A photographic or carbon or faxed copy of this authorization being a valid copy of the signature(s) of the undersigned, may be deemed to be the equivalent of the original and may be used as a duplicate original.

Further, I/we authorize any depository listed on our loan application to debit our account for the processing fee assessed and the completion of the verification form.

Your prompt reply will help expedite my real estate transaction.

Thank you for your cooperation.

_____ _____ _____ _____

Signature Date Signature Date

_____ _____

Social Security Number Social Security Number

NOTICE TO BORROWERS: This is notice to you as required by the Right to Financial Privacy Act of 1978 that FHA has a right of access to financial records held by financial institutions in connection with the consideration or administration of assistance to you. Financial records involving your transaction will be available to FHA without further notice or authorization but will not be disclosed or released by this institution to another Government Agency or Department without your consent except as required or permitted by law.

CREDITWORTHINESS

The fourth and a very important factor a lender considers in evaluating the borrower's qualification for a loan involves creditworthiness. A detailed examination of the borrower's credit report will reveal certain information about the borrower. The lender will order a residential mortgage credit report from one of the major Credit Reporting Repositories. The credit report is analyzed to determine the borrower's pay habits, and past patterns in meeting financial obligations. The borrower will be asked to provide a statement explaining any credit derogatives.

If a borrower has elected to pay cash and has no credit accounts, creditworthiness can still be evaluated by demonstrating a willingness to pay in a timely manner with "rent receipts" and "receipts for utility bills"; a form of silent credit.

Because a borrower has experienced credit difficulties in the past, due to unforeseen circumstances, will not automatically signal a reject for a loan. The borrower's statement and reasons for credit derogatives are carefully evaluated before a final decision is made.

Compensating Factors - Mortgage lenders, the secondary market, and mortgage insurers are increasingly permitting compensating factors which is a term that refers to a borrower's circumstances that warrant more flexible underwriting.

Commitment Letter - After your loan is approved, the lender will send a commitment letter. This is a formal offer or loan commitment. It will state the amount and terms of the loan. You will be given a certain amount of time to accept the loan offer and close. You should read and understand the commitment letter before signing. A counselor from a housing counseling agency or an attorney can assist you if the terms identified in the letter are unclear.

HOME BUYERS MORTGAGE COMPANY
4467 Some Street
Anytown, USA 61767

September 4, 1996

Justin Time
Last Time
1941 Moving Avenue
Anytown, USA 42643

Dear Mr. and Mrs. Time:

We are pleased to advise that your mortgage loan application has been approved for a fixed-rate real estate mortgage on the property located at 32048 Residence Plaza, Uptown USA 62544 subject to the following terms:

Amount of Loan	$82,850.00
Term	30 years
Interest Rate	8%
Commitment fee	$829.00

In order to accept this commitment, you must sign and date the original and return it to us on or before September 19, 1996. This commitment will expire if the loan is not closed under the terms specified by October 9, 1996.

In order to close this transaction, the following document must be furnished to us for our review. Please contact Ms. Getloan about obtaining the following:

Preliminary Title Report

This commitment is subject to all laws and regulations governing the transaction.

At the established time for closing, please arrange to bring to the closing certified bank funds or a cashier's check for the funds needed to close the transaction. Make the check payable to Home buyers Mortgage Company.

Please call me if you have questions. Thank you for the opportunity to be of service to you.

Sincerely,

Vice President
Residential Lending

I accept the terms as outlined in your letter dated September 4, 1996. (Please sign. Do not print.)

Signature_____ Date_____

This module would not be complete without a brief review of Fair Housing Laws.

Laws have been passed by Congress to protect home buyers against certain types of discrimination in housing. The purpose of these laws is to create a single, unbiased market where everyone has the opportunity to purchase a home and live where she or he chooses.

The Fair Housing Act prohibits discrimination in housing or mortgage lending and the provision of insurance or brokerage services because of:

- Race or color
- National Origin
- Sex
- Familial status (one or more children under 18; also applies to pregnant women.)
- Handicap or disability
- Creed
- Religion
- Age

What is prohibited?
No one may take any of the following actions based on the above basis:

- Refuse to rent or sell housing
- Refuse to negotiate for housing
- Make housing unavailable
- Deny housing
- Set different terms, conditions or privileges for sale or rental of a dwelling
- Provide different services or facilities
- Falsely deny that housing is available for inspection, sale or rental
- For profit, persuade owners to sell or rent (blockbusting)
- Steering - Conscientious direction of persons to or away from specific areas

- Redlining - Refusing to make loans or issue insurance policies in certain areas
- Coerce, intimidate or harass someone for exercising their fair housing rights.
- No one may refuse to reasonably accommodate the needs of persons with disabilities.

In mortgage lending, no one may take any of the following actions based on the above bases:

- Refuse to make mortgage loan
- Refuse to provide information regarding loans
- Impose different terms or conditions on a loan
- Discriminate in appraising property
- Refuse to purchase a loan
- Set different terms or conditions for purchasing a loan

The Equal Credit Opportunity Act prohibits denials of credit based on race, color, religion, national origin, sex, age, marital status or receipt of public assistance.

If you believe that you have encountered discrimination, you should contact a local fair housing agency or your local HUD office, or call (toll-free) 1-800-669-9777. Hearing impaired persons may call (TDD) 1-800-927-9275.

REVIEW QUIZ II

1) What is a VOE and what does it tell a lender?

2) Why are debt-to-income ratios reviewed by lenders?

3) What is a VOD and why is it used by lenders?

4) Identify key information contained in a credit report.

5) High ratios increase / decrease the lender's risk. (circle one)

6) Identify two acts that can reduce your ratios.

Below is a checklist of the most frequently requested information by lenders from the borrower. Use the Checksheet to gather information and documents prior to completing the loan application.

CHECKSHEET

Property information:

_____1. Purchase Contract and Escrow Instructions - signed by all parties, original or a copy certified true and correct.

_____2. Names, company and telephone number for listing and selling real estate agent's.

_____3. Name, address and telephone numbers for Title Company and Escrow Office.

_____4. Copy of check for earnest money deposit.

_____5. Copy of listing, including real estate taxes and lot dimensions.

_____6. Legal description of property being purchased.

_____7. Property hazard insurance agents name, company, and telephone number.

_____8. Name and telephone number of persons for appraiser to contact to access the property.

Employment:

_____1. Names, addresses, telephone numbers, and exact dates of employment with ALL employers over the past two years.

_____2. W-2 / 1099's for 19___ and 19___ from all employers (two years).

_____3. Signed personal federal tax return including all schedules for 19___ and 19___.

_____4. Most recent pay stub.

_____5. Signed company federal tax returns including all schedules for 19___ and 19___ (self-employed).

82

_____6. Current (within past 3 months) Year-to-date Profit and Loss statement and Balance Sheet for self-employed or commissioned applicants, reviewed and signed by an accountant without audit.

_____7. Award letter(s) or most current amendment for social security or retirement benefits. Include proof of payment (direct deposit or check stub).

_____8. Copy of Note income - must have 5 years or more remaining.

_____9. Rental agreements / leases (FHA requires one year lease) for all tenants of real property owned.

_____10. Schedule of Real Estate on all real property owned to include property address and zip codes, type property (SFR, TH, condo, etc.), type mortgage (FHA, VA, conventional, private, etc.), date mortgage originated, mortgage balance, mortgage payment, rental income, and net income earned (positive and / or negative) on each property.

_____11. Proof of consistent receipt of child support and alimony if considered qualifying income.

Assets:

_____1. Two months of current statements for ALL bank, credit union or savings accounts showing BALANCES, ACCOUNT NUMBERS, and COMPLETE ADDRESS of the lenders.

_____2. Stock and bond account statements including broker's names, addresses, account numbers, number of shares and value.

_____3. Life insurance face amount - cash value if any.

_____4. Year, make and estimated value of all vehicles.

_____5. Gift letter - funds will be verified in borrower's account.

Liabilities:

_____1. Names, addresses, balances, monthly payments, and account numbers for all vehicle loans, charge accounts, credit cards, and any other financial obligations.

_____2. Lenders' names, addresses, balances, monthly payments, and account numbers for all mortgages. Include a copy of annual statement, a 12 month payment history, and the type loan (FHA, VA, conventional and / or private) for each loan.

_____3. Letter explaining any slow pays, collection accounts, judgements, or other credit problems.

_____4. Bankruptcy paper (petition, schedule of debts, and discharge) and a letter of explanation

Other:

_____1. Addresses and dates of occupancy for ALL residences for the past two years.

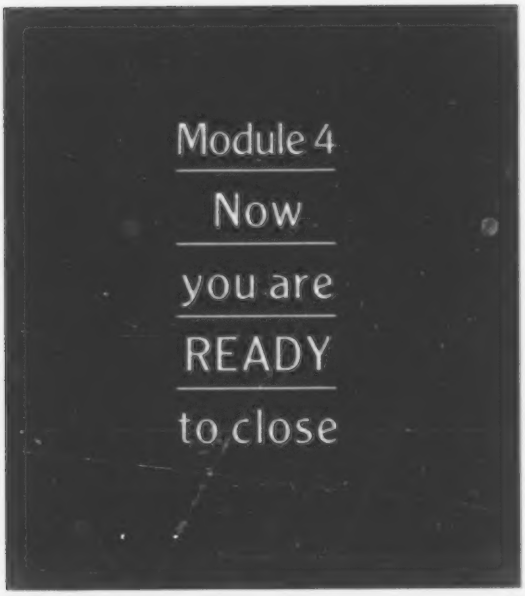
_____2. Names and addresses of all landlords within the last two years.

_____3. Copies of social security cards and driver's license (photo ID is required for each borrower).

_____4. If divorced, provide divorce decree and stipulations.

_____5. Name and address of nearest living relative.

84


Module 4
Now
you are
READY
to close

NOTES

You have already learned:

- How to budget for a home.
- How to look for your dream home.
- How to find a lender and apply for a loan to purchase that dream home.

Now it is time to discuss how you are going to survive the "closing process" of that loan on your "Dream Home!" The closing of a home loan often is the most confusing and difficult part of the home purchase process. There are many forms that you are asked to sign. You may encounter good and not so good closing agents. There are a few things about the loan closing that you should always remember:

1) Never be intimidated by your closing agent. The closing agent may close several loans a day. They become so familiar with the forms and process, that sometimes they forget that you are a novice.

2) If you do not understand what you are signing, don't sign until the closer has explained the form so you can understand it.

3) Remember, it is your signature on the dotted line, not the closer's. The closing company is getting paid a fee to close your loan and you should expect excellent customer service.

Your lender, real estate agent or closing agent, will contact you to let you know when it is time to close your loan. All parties purchasing the home should be present for the closing. On occasion, if one of the parties is out of town at closing time, documents may be signed ahead of time. For the purpose of this class, however, we are going to role play with all parties involved in a closing presentation.

The following is a list of some typical "closing documents."

1) HUD 1 - Settlement Statement
2) Addendum to HUD 1

3) Assessor's Letter
4) Truth in Lending Disclosure Statement
5) Escrow Disclosure
6) Assumption Disclosure
7) Prepayment Letter
8) Affidavit that there are no Outside Agreements
9) Mortgage or Deed of Trust
10) Note
11) Termite Certificate
12) Survey
13) Survey Disclosure and Receipt
14) Encroachment Affidavit (if needed)
15) Flood Zone Disclosure
16) Loan Application
17) Addendums to Loan Application
18) Warranty Deed
19) Lien Affidavit

By now you are probably saying to yourself: "What have I gotten myself into?" Right? Well, just remember, everyone that buys a home has to sign some, if not all, of these closing documents. It is all just part of the responsibility of being a homeowner. At the end of this session, you should feel perfectly comfortable with the closing process.

There are three (3) basic types of residential closings:

- Closing of an FHA loan
- Closing of a VA loan
- Closing of a Conventional loan

Many of the same forms are used for any of the three (3) basic types of closings. We will review each of the common forms and discuss other forms that may also be included in only some closings.

HUD 1 - SETTLEMENT STATEMENT

We will discuss this form by each line item: A loan closer should walk through this form with you at closing, line item, by line item. PAGE ONE (1) OF THE HUD 1 - Settlement Statement

B. Type of Loan: As you can see, this form is a standard settlement statement form for all closings.

The loan options are:

1) FHA - (Federal Housing Administration)
2) RECD (Rural Economic and Community Development)
3) Conv. Unins. - (Conventional Uninsured)
4) VA - Veterans Affairs
5) Conv. Ins. - (Conventional Insured)
6) File Number:
   This number is assigned by the lending institution.
7) Loan Number:
   This number is assigned by the lending institution.
8) Mortgage Insurance Case Number:
   This number is often referred to as the MIC. This number is used on FHA insured loans only.

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c)" were paid outside the closing, they are shown here for information purposes and are not included in the totals.

D. Name and Address of Borrower:

The borrower is the person receiving the loan and buying the house. The borrower is the person making the loan with the lending institution. There may be one or more names shown in this block. If there is more than one person purchasing this home and approved for this loan, the names will be shown as follows:

90

Sam and Janet Murray
1234 Hewitt Avenue
Tulsa, OK 74119

The address that is placed in this box, is the property address of the newly purchased home.

E) Name and Address of Seller:

The name and address of the person selling the house goes in this location. The address should be a new forwarding address, if one is available.

F) Name and Address of Lender:

The name and address of the lending institution goes in this box. This is the financial institution or mortgage company that is making you the loan to purchase this house.

G) Property Location:

The address of the new home goes here. Normally, the property location and the borrowers address will be the same, but if an investor is purchasing a home to rent rather than live in, the addresses will be different.

H) Settlement Agent:

The Settlement Agent is the person closing the loan for you. Typically, this is a closing company name.

Place of Settlement:

This is the address of the location where the closing is taking place. It is normally the address of the Settlement Agent or could be a bank or mortgage company address, if the closing is taking place at the financial institution or mortgage company office location.

I) Settlement Date:

This is the actual date of the closing.

J) Summary of Borrower's Transaction:

Just as the statement says, the left side of the settlement statement of "J" is always the "buyer's" or "borrower's" side of the statement.

100) Gross Amount Due from Borrower:

101) Contract Sales Price:

This is the actual selling price of the home. It is the amount you agreed to pay for the home.

102) Personal Property:

If there is a value added to the purchase of a home for personal property, that was not included in the contract price, that amount would be shown here.

103) Settlement Charges to Borrower (line 1400):

The amount on this line is a transferred amount from line 1400 on Page 2 of the Settlement Statement. We will discuss later how this amount is totalled.

104) Blank:

Used for unusual items needing to be shown.

105) Blank:

Used for unusual items needing to be shown.

Adjustments for items paid by seller in advance:

106) City/town taxes _____ to _____

The amount shown on this line will indicate real estate taxes that have been paid for months "from and to". It is normally the obligation of the seller to pay real estate taxes from the last time they were paid current to the day of closing on this loan. This line is used for city and town taxes only.

92

107) County taxes _____ to _____

This line is used for only county real estate taxes paid by the seller.

108) Assessments _____ to _____

This line is used for assessments only. An assessment could be a special charge that cities, towns, or counties sometimes charge for special infra-structure, such as streets and sewer lines.

109)-112) Extra blank lines for unusual items unique to a loan closing only.

120) Gross Amount Due From Borrower:

The total of the contract sales price and any amounts shown on lines 101 through 112 are totalled here.

200) Amounts Paid By or on Behalf of Borrower

201) Deposit or earnest money:

The amount you gave your real estate agent as a deposit or earnest money is shown on this line. There is no set amount for this. It can be whatever amount was agreed upon when the contract was signed.

202) Principal amount of new loan(s):

The amount shown on this line is the actual amount of money you are borrowing from the financial institution or mortgage company to purchase this house.

203) Existing loan(s) taken subject to:

This line is not used in typical loan closings. It is an exception type line item.

204 - 209) Extra blank lines for usual items unique to a loan closing only

Adjustments for items unpaid by seller:

210) City/town taxes _____ to _____

The amount of real estate taxes due from the closing date to the end of the tax year is shown on this line. It is the amount the borrower is responsible for.

211) County taxes_____to_____

If there are county real estate taxes, they are shown on this line.

212) Assessments_____to_____

If there are assessments due, they are shown on this line.

213 - 219) Extra blank lines for unusual items unique to a loan closing only.

220) Total Paid By / For Borrower:

The total of lines 201 through 219 is shown on this line.

300) Cash At Settlement From / To Borrower

301) Gross Amount due from borrower (line 120):

This is a transferred amount from line 120.

302) Less amounts paid by/for borrower (line 220):

This is a transferred amount from line 220.

303) Cash From / To Borrower:

The amount most often shown on this line is the amount of closing costs that have to be paid. It is the very unusual case when a borrower gets money paid "to" him/her at closing. Most often money is being received "from" the borrower for the balance of downpayment and closing costs.

K) Summary of Seller's Transaction:

Just as the statement says, the right side of the settlement statement, "K" is always the "seller's" side of the statement.

400) Gross Amount Due to Seller:

401) Contract sales price:

The amount of the sales price taken from the contract is entered on this line item.

402) **Personal Property:**

If there is any personal property value not included in the contract sales price, but is part of the contract, it is entered on this line.

403 - 405) Extra blank lines for unusual items unique to a loan closing only.

Adjustments for items paid by seller in advance:

406) City/town taxes _____to _____:

The amount of city/town real estate taxes paid by the seller is shown on this line. The dates for which the taxes are being paid are also shown.

407) County taxes _____to _____:

The amount of county real estate taxes paid by the seller is shown on this line. The dates for which the taxes are being paid are also shown.

408) Assessments _____to_____:

The amount of any assessment paid by the seller is shown on this line. The dates for which the assessment is being paid is also shown.

409 - 412) Extra blank lines for unusual items unique to a loan closing only.

420) **Gross Amount Due to Seller:**

The total of the contract sales price and any amounts shown on lines 401 through 412 are totalled on this line.

500) **Reductions in Amount Due to Seller:**

501) Excess deposit (see instructions):

There is not typically an amount shown on this line. It is there for unique circumstances.

502) Settlement charges to seller (line 1400):

This amount is a transferred amount from line 1400 on Page 2 of the Settlement Statement. We will discuss later how this amount is totalled.

503) Existing loan(s) taken subject to:

This line is not used in typical loan closings. It is an exception type line item.

504) Payoff of first mortgage loan:

The amount shown on this line is the "loan payoff" amount. If the seller had an existing mortgage on the house he/she has just sold, the payoff amount would go on this line.

505) Payoff of second mortgage loan:

If the seller had a second mortgage, which is an additional loan, on this house he/she is selling, that loan would have to be paid off also. The amount would be shown on this line.

506 - 509) Extra blank lines for unusual items unique to a loan closing only.

Adjustments for items unpaid by seller:

510) City/town real estate taxes_____to_____

The amount of city/town taxes due from the beginning of the tax year to the closing date is shown on this line. It is the amount for which the seller is responsible.

511) County taxes_____to_____

The amount of county real state taxes due from the beginning of the tax year to the closing date is shown on this line It is the amount for which the seller is responsible.

512) Assessments_____to_____

The amount of assessments due from the beginning of the assessment year to the closing date is shown on this line. It is the amount for which the seller is responsible.

513 - 519) Extra blank lines for unusual items unique to a loan closing only.

520) Total Reduction Amount Due Seller:

The total of lines 501 through 519 is shown on this line.

600) Cash At Settlement To/From Seller:

601) Gross amount due to seller (line 420):

The amount from line 420 is transferred to this line.

602) Less reductions in amount due seller (line 520):

The amount from line 520 is transferred to this line.

603) Cash To/From Seller:

The amount most often shown on this line is called the amount of sales proceeds due to the seller. Usually the seller will receive money from the sale of his/her house.

It is the rare occasion when a seller has to bring money to the table to close on a loan. The amount shown on this line is generally known as equity from the sale of a house.

PAGE TWO (2) OF THE HUD 1 - SETTLEMENT STATEMENT

L. Settlement Charges

700) Total Sales/Broker's Commission based on sales price:

Division of Commission (line 700) as follows:

701) $_____to_____

702) $_____to_____

Both of these line items indicate who is receiving the division of the commissions paid and how much each one is getting.

703) Commission paid at Settlement:

The amount entered into on this line is the amount of the real estate commission paid by the seller. It would be the total of lines 701 and 702. This amount is most often shown in the column titled: "Paid from Seller's Funds at Settlement."

704) Extra blank line for additional commissions paid.

800) Items Payable in Connection With Loan

801) Loan Origination Fee_____%_____

This is the fee the bank or mortgage company is charging the borrowers for processing and making the mortgage loan. This fee is a percentage of the loan amount.

802) Loan Discount_____%_____

You should have discussed discount points when you discussed the loan application and selecting a lender earlier in this course. The discount points you agree to pay are shown on this line. This would be shown in the column labeled "Paid from Borrower's Funds at Settlement". Sometimes the seller will agree to pay discount points, but most often it is a buyer's expense.

803) Appraisal Fee_____to_____

There is most often a charge for an appraisal. Before you received the approval of your loan, the financial institution or mortgage company had to have an appraisal to determine the fair market value of the house you are buying. This fee is generally paid by the buyer, unless agreed to differently in the contract.

804) Credit Report_____to_____

There is most often a charge for a credit report. Before the financial institution or mortgage company could approve your loan, they had to determine your credit-worthiness. The charge for that credit report is shown on this line. It is most often a buyer's expense, however, sometimes the seller agrees to pay for this item.

805) Lender's Inspection Fee:

If, prior to closing on this loan, there are repair requirements shown in the contract and/or the appraisal, the lender must ascertain that those repairs have been made. The lender is allowed to charge a fee for it's time and travel expense. That fee is shown on this line. It is generally a buyer's expense, but the seller may agree to pay the fee prior to closing.

806) Mortgage Insurance Application Fee:

Most lenders require mortgage insurance on the note and mortgage you are signing when the downpayment is less than 20%. The collateral for this loan is the home you are buying. The mortgage insurance protects the lender against financial loss if the mortgage is foreclosed.

807) Assumption Fee:

If the buyer of this house is not getting a new loan, but is assuming the loan balance of the old mortgage that belongs to the seller, then an assumption fee is allowed to be charged to the buyer. The financial institution or mortgage company receives this fee.

808 - 811) Extra blank line for additional line items that may be charged at closing.

900) Items Required By Lender To Be Paid in Advance:

901) Interest from_____to_____@$_____/day:

The lender is allowed to charge you interest from the day you close your loan until the first payment is due. (Example: If you close your loan on the 15th of the month, and your first payment is due on the 1st of the following month, you will be charged 15 days interest at closing. That amount is shown on this line.)

902) Mortgage Insurance Premium for_____months to_____

On some loans, there is a mortgage insurance premium fee. When this fee is charged, the amount is shown on this line. This is generally a buyer's expense and is shown in the buyer's column.

903) Hazard Insurance Premium for_____years to_____

Hazard insurance is always required on any mortgage loan. This is the insurance that protects the borrower and the lending institution against loss in the case of fire or other disasters and damages. The amount of the hazard insurance is most often a charge to the buyer and is shown on this line in the buyer's column.

904 - 905) Extra blank lines for other insurance premiums or unusual expense items.

1000) Reserves Deposited With Lender:

1001) Hazard Insurance_____ months @$_____per month:

This line item is generally referred to as: Being paid into the "escrow account." It is also called "pre-paids." It is a prorated amount of the annual hazard insurance premium. This item is charged to the borrower and shown in the appropriate column.

1002) Mortgage Insurance_____months @$_____per month:

This line item is generally referred to as: being paid into the "escrow account." It is also called "pre-paids." It is a prorated amount of the annual mortgage insurance fee. This item is charged to the borrower and is shown in the appropriate column.

1003) City property taxes_____months @$_____per month:

This is a prorated amount for the payment of annual city real estate taxes. It is also called a "pre-paid." It is charged to the borrower and shown in the appropriate column.

1004) County property taxes _____ months @ $_____per month:

This is a prorated amount for the payment of annual county real estate taxes. It is also called a "pre-paid." It is charged to the borrower and shown in the appropriate column.

1005) Annual Assessment_____months @ $_____per month:

This is a prorated amount for the payment of any annual assessment fees against this property. It is also called a "pre-paid." It is charged to the borrower and shown in the appropriate column.

1006 - 1008) Extra blank lines for any additional items unique to the closing of this particular loan.

1100) Title Charges:

1101) Settlement or closing fee_____to_____

The lender and closing agent are allowed to charge a settlement or closing fee. The amount of this charge could be split between the buyer and seller, or paid in

full by the buyer or the seller depending on how the contract is written. There may be an amount shown in both columns.

1102) Abstract or title search_____ to_____

There is most often a fee charged to either bring an abstract to date, if the state is an abstract state, or at a minimum a title search fee. The lender must be sure that there is no flaw in the chain of the title and must check to see if the property is clear of any mortgage, liens, or encumbrances.

1103) Title examination_____to_____

There is most often a fee for an attorney to examine the abstract or read the chain of title. All lending institutions require this service and it is usually charged to the buyer and shown in the appropriate column.

1104) Title Insurance Binder_____to_____

Some loans require title insurance be purchased to guarantee that a property has a clear title. This insurance protects the lender and sometimes the buyer against a clouded title. For an additional premium, the buyer can obtain insurance coverage. This is generally a fee charged to the buyer and is shown in the appropriate column.

1105) Document preparation_____to_____

The lending institution is allowed to charge a document preparation fee. This fee may be charged for preparation of the note and mortgage documents. This is generally charged to the buyer and is shown in the appropriate column.

1106) Notary fees_____to_____

There are documents signed at closing that must be notarized before being recorded in the land records.

The closing agent or lender usually charges this fee to the buyer and is shown in the appropriate column.

1107) Attorney's fees_____to_____

This line is included for any attorney's fees that were accumulated during the course of the sale of this property or other legal services or closing services. This could be charged to the buyer or the seller, depending on who incurred the fee.

1108) Title Insurance_____to_____

This is a fee that is charged for the premium on title insurance. It is generally a buyer's expense and is shown in the appropriate column.

1109) Lender's coverage_____$_____

This is a fee for the title insurance. It is the fee charged for the lender's coverage of the policy. It is generally a buyer's expense.

1110) Owner's coverage_____$_____

This is a fee that is charged to the borrower for the homeowner coverage of title insurance. It is generally a buyer's expense.

1111 - 1113) Extra blank lines for items unique to this closing of this particular loan.

1200) Government Recording and Transfer Charges

1201) Recording fees: Deed $_____; Mortgage $_____;

Releases $_____

These are allowable charges for the recording of required documents. Generally, the recording of the warranty deed and mortgage is charged to the buyer. The recording of releases is charged to the seller.

1202) City/county tax/stamps: Deed $_____; Mortgage $_____:

Many cities and counties require tax stamps when real estate is purchased. The warranty deed stamps can be charged to either the buyer or seller.

1203) State tax/stamps: Deed $_____; Mortgage $_____;

Some states require tax stamps when real estate is sold or purchased. These stamps can be a buyer or seller charge.

1204) - 1205) Extra blank lines for items unique to the closing of this particular loan.

1300) Additional Settlement Charges:

1301) Survey_____to_____:

Most lenders require a survey be performed on the property prior to closing. The survey company certifies to the lender the property boundary lines. This is generally a buyer's expense.

1302) Pest inspection_____to_____:

Pest inspection certifications are generally required on all loan closings. The lender wants to be assured there are no termites or termite damage present in the house. This is generally a seller's expense.

1303) - 1305) Extra blank lines for items unique to the closing of this particular loan.

1400) Total Settlement Charges (enter on lines 103, Section J, and 502, Section K):

This is a total of each of the buyer's column and the seller's column.

In most cases the HUD 1 - Settlement Statements must be signed by both the buyer and the seller. Proper legal names are to be typed and signed as indicated.

ADDENDUM TO HUD-1 SETTLEMENT STATEMENT

The FHA requires this addendum as a certification that the borrower and seller received copies of the Settlement Statement and that the receipts and disbursements are true and accurate. The Settlement Agent also has to certify to the same information. A closing date is required on this form.

TRUTH IN LENDING DISCLOSURE STATEMENT

The Truth in Lending Disclosure Statement is a document that discloses to the borrower all the costs involved in making and closing the loan. The lender is required to give this to the borrower within three business days of the loan application. For home purchase loans, this statement may be revised just before closing because it is based on the Good Faith Estimate of closing costs. This statement can be confusing to the borrower. It has five (5) primary boxes:

1) Annual Percentage Rate (APR):
The annual percentage rate or APR is the cost of a borrower's credit as a yearly rate. This APR is defined by the federal Truth in Lending Act, as including finance charges, as well as, the contractual interest rate. The APR shown on the Truth in Lending Disclosure Statement is always higher than the interest rate shown on the note and mortgage. This does have a tendency to confuse the borrower.

2) Finance Charge:

This is the dollar amount the credit will cost you. It is your estimated closing costs.

3) Amount Financed:

The amount of credit provided to you or on your behalf. It is your loan amount.

4) Total of Payments:

The total amount of money you will have paid after you have made all scheduled payments. This amount is usually a very large dollar amount, because most often is spans a twenty-five (25) to thirty (30) year mortgage term. The figure is a total of all interest you will pay over the life of the loan plus the original mortgage amount.

5) Your Payment Schedule:

This area of the statement shows the breakdown of your monthly payments. It sets out the principal and interest amounts, as well as, all tax and hazard insurance amounts and how those payments are to be made. It also indicates any late payment charges or prepayment charges.

NOTE

The note is a document on which a borrower promises to repay a loan. In the case of a home loan, the note is often referred to as a mortgage note. The note contains the following information:

1) It identifies the "borrower" as the person signing the Note, as well as, the person's successors and assigns.

2) It identifies the "lender" by name.

3) A Note always contains a clause declaring the borrower's promise to pay interest and repay the principal sum of the note.

4) It sets out the principal amount, rate of interest and term of the note.

5) It says when and where payments are to be made.

6) It gives the amount of each payment.

7) It indicates the Note is secured by a mortgage, deed of trust, or similar security instrument that is dated the same date as the Note and called the "Security Instrument." The Security Instrument protects the lender's legal interest in the property should the property be foreclosed.

8) It indicates payment adjustments, if applicable.

9) A Note declares a borrower's right to prepay the debt.

10) A Note sets out the penalty if the borrower fails to make his/her payments. It sets out late charges, and default charges.

11) The Note sets out waiver rights, obligations and proper notice requirements.

By signing the note, the borrower accepts and agrees to the terms and conditions contained in the note.

PAYMENT LETTER - ATTACHMENT TO SETTLEMENT STATEMENT

This is a simple form that sets out all information required to make your monthly mortgage payments. It may include the following information:

- Loan number
- Borrower's name and address
- First payment due date
- Complete breakdown of payment amount, indicating the amount of the payment being applied to principal, interest, taxes, and hazard insurance
- When payments are due
- To whom checks are to be made payable, with the address
- An estimate of your annual real estate taxes

These items are not required but may be included:

- Legal description of the property
- Date of closing or settlement
- Property value
- Sales price
- Loan amount
- Interest rate
- Term of loan
- Seller's name
- Loan closer's name

INITIAL ESCROW ACCOUNT DISCLOSURE STATEMENT

The escrow disclosure statement is an estimate of activity in your escrow account. It indicates a starting balance, payment amounts into and from the account, description of those payments into and from and anticipated escrow account balance.

PURCHASER/BORROWER STATEMENT
SELLER/OWNER STATEMENT

This is an affidavit that there are no outside agreements associated with this loan or the sale of this property. The buyer and seller both sign certifications to the fact that they are the sole owner of a fee simple title and are in possession or will be in possession of the property.

The mortgage or security instrument is a document signed by a borrower and a lender giving the lender the right to the borrower's house if the borrower does not repay the loan. The mortgage has many clauses. The mortgage contains the same information as the Note and other clauses such as:

- Application of payments
- Fire, flood and other hazard insurance requirements
- Condemnation
- Occupancy, preservation, maintenance and protection of the property
- Fees
- Grounds for acceleration of the debt
- Reinstatement information
- Foreclosure procedures

Generally during a loan closing, the borrower does not take the time to read completely through a mortgage. It is advisable for the borrower to be very familiar with the mortgage prior to closing. Typically the mortgage is a lengthy document to read at a loan closing, but you, the borrower, have every right to take the time to read the mortgage. Asking for a draft copy of the mortgage in advance would be wise. Don't ever sign a document you have not read or are not familiar with. Ask questions about any provision found in the mortgage if you do not understand the provision. Seek legal counsel when needed.

NOTES

Module 5
How to TAKE CARE of your home after closing

NOTES

HOW TO CARE FOR YOUR HOME AFTER CLOSING

Congratulations!

You are now the proud owner of the home of your dreams. You have worked hard to save money, find the right neighborhood, the right real estate broker, the right house, the right lender, and the right closing agent. Now it is time to think about how to protect your investment in your home.

There are some questions you should be asking yourself. For example:

- How should the house be maintained?
- How do the repairs get done?
- How will you pay for major repairs?
- What are the safety issues that need to be addressed?
- How do you relate to the new neighbors?
- What ways are there to make the house more energy efficient?
- What insurance coverage is necessary?
- Is refinancing a way to reduce mortgage payments?
- What should be done if it's not possible to make mortgage payments?

SEEKING ADVICE FROM THE PREVIOUS HOMEOWNER

The best source of information for the continuing maintenance of your new home is the previous owner. Hopefully before closing takes place you spent some time with the previous owner going through the house room by room to become familiar with all the aspects of the house. Most important would be the basic systems such as the roof, the electrical, the heating, the plumbing and the foundation. In addition, the previous homeowner can give you the names and phone numbers of contractors and other professionals (electricians, plumbers, roofers, carpenters) who have worked on the house and what they did and when they did it. You should try to obtain construction information such as wiring diagrams, blueprints or remodeling plans. It is important to know who picks up the garbage or trash and when they do it. You should also know who the fuel oil supplier is and when fuel oil is delivered if you have an oil burning heating unit. You should be familiar with the location of the main shut off valves for water and gas, the main electrical switch, the fuse or circuit/breaker box, and the operation of the hot water heater thermostat.

MAKING NECESSARY REPAIRS

The pre-inspection report you requested before buying the house will give you information related to repairs that may be needed now and in the very near future. There are minor repairs to the house that you will be able to perform such as a replacing a broken window, caulking tile in the bathroom, weather stripping, or painting. For typical repairs you'll need to have the following basic tools:

- Hammer
- Straight blade and Phillips screwdriver (or combination screwdriver with interchangeable tips)
- Slip joint pliers
- Handsaw
- Wall scraper
- Tape measure
- Flashlight
- Plunger (one that works for both sinks and toilets).

Other repairs will require the services of a contractor. You will need to know how to find a contractor, who is reputable.

Here are a few guidelines you can follow to help you make the right selection:

1) Talk to people in your neighborhood to get the names of contractors suitable to do the repairs that are needed. You should also use local publications to put together a list of contractors.

2) Arrange to have the contractors visit you for an interview and a discussion of the work that needs to be done. Ask the contractor for the address of a property where you can see what work has been done.

3) Get free cost estimates from the contractors. Ask them to give you an estimate in writing in the form of a firm bid with a date that work will be started and completed.

4) A contract specifying what work is to be performed, all material and labor for the project, when payments are due, when work is to be completed etc., should be signed by you and the contractor you selected. It's important to hold back about ten percent of the payment until after the work is completed.

5) The contractor should be required to obtain the necessary permits and make sure the work is inspected, if required by local government.

6) Be sure the contractor has liability insurance that includes bodily or personal injury, and property damage.

7) The contractor should provide a reasonable time of guaranteeing the work that is to be performed. Thirty days is normal but, the type of work performed should be considered. Manufacturers' warranties could apply for a product that was installed by the contractor.

HOME MAINTENANCE

Now that you own a home of your very own you want to make sure it is maintained properly. Home maintenance requires some routine inspections for maintenance. We have provided you a Home Maintenance Checklist to help you become familiar with the items and systems that should be routinely inspected and cared for.

HOME MAINTENANCE CHECKLIST

The purpose of this checklist is to help you identify the need for minor repairs or maintenance by walk-through inspections. These should be done at least twice a year because of seasonal changes - once in the fall and once in the spring. You should be able to recognize the evidence of a need for repairs at other times during the year based on your walk-through experiences. Major repairs and their cost will be avoided if you do proper inspections and take appropriate action. The checklist indicates the parts of the home, what indicators of a problem to look for, and suggests possible causes.

INTERIOR

- **Basement** – Dampness or water following wet weather - Check if ventilation to the basement is adequate, if sump pump is working, if leaders and downspouts are working properly, and if drainage on the outside of the foundation is away from the house.
- **Living area** - Water stains on the ceiling – Check for missing caulk around the bath tub and tile.
- **Attic or ceiling under roof** - Water stains – Check for worn roof or missing shingles.
- **Electrical System** – Fuses that blow or circuit breakers that go off – Check for overloads and employ a licensed electrician to upgrade the system if the problem continues.
- **Heating and Cooling Systems** - Inadequate heating or cooling – Check for dirt and dust around furnace. Clean or change any air filters. Have heating and cooling system checked by a qualified service person.
- **Plumbing System** - Leaking faucets – Check for worn washers.

EXTERIOR

- **Foundation** - Pool of water - Check leaders and downspouts to make sure rain water flows through properly and away from the foundation.

- **Walls** - Peeling paint or decayed siding and trim - Check for lead-based paint if the house was built prior to 1978 and take corrective measures if there is a problem. Check drainage from leaders and downspouts.
- **Roof** - Missing or worn shingles - Check branches of nearby trees to determine if they are too near the roof. Evaluate roof for replacement.
- **Yard** - Rotted or dying trees - Check for insect infestation and soil contamination from road salt, chemicals, etc.

GETTING MONEY TO PAY FOR REPAIRS

The money to pay for major repairs can come from home improvement or personal loans from local lenders. The contractor may provide financing or advise you where to obtain it. A home equity loan may be the approach you take. In any event, you should shop around for the best interest rate and the best repayment schedule for you. Check with community agencies to find out if money is available through special grants or loan programs.

You should perform a fall and spring inspection, since it will be helpful for you to be aware of items that may need attention before they become major repairs. Eventually it will become routine to check items that may need repair before they become a problem. This will save you money in the long run. Examples would include replacing a downspout from the gutters, scrapping and painting the outside trim of windows, cleaning or replacing the furnace filter, and draining the hot water heater.

SAVING MONEY THROUGH ENERGY EFFICIENCY

Energy efficiency such as adding insulation without over insulating to cause dampness, having a thermostat timer and purchasing energy efficient items will result in lowering the expense of homeownership. You can contact your local utility or state agency for energy-saving tips and the availability of grants or low cost loans to improve the energy efficiency of your home. You should be aware of energy savers such as: Turning out lights when you leave the room, not letting water run unnecessarily, insulating your attic, having your furnace or heat pump serviced periodically, installing storm windows and putting weather striping around your windows and doors.

Securing your home and family

Safety issues relate to protecting your home by changing locks, installing fire extinguishers, and listing emergency numbers near your phone. In addition, fire marshal recommended smoke detectors should be installed on the ceiling or hallway outside each bedroom door and in or near the living room. They should be checked periodically to make sure they are working. A chain link ladder should be considered for a way to escape from a second or third story window. It can be stored under a bed or in a closet. You can perform a fire-prevention tour of your home or have a fire inspector come to your home if the community provides the service. A first aid kit with band aids and medicines in a easy to reach place is very important for everyone in your family. Ways of making your home secure would include, locking your doors and windows when your not at home, trimming shrubs that hide windows and doors, putting up lights for lighting your house and yard and stopping mail and newspaper delivery if your going to be away for a few days. You should have all of your important papers in a safe place such as a safe deposit box at a local bank or a fire proof safe at your home.

Getting neighborly advice

Neighbors are a very important source of information. You should make it a point to meet with your neighbors soon after you move into your home. They will be invaluable should an emergency occur where you need their help and they will be most helpful in advising you of the benefits of being part of your community. For example, changes such as, street widening, zoning changes on a nearby property and the location of a community center could have impact on you and your home. Your neighbor can provide you with access to community organizations you may find helpful to getting involved in neighborhood activities. This might include a Blockwatcher or Neighborhood Watch Association, child home care or play group, Volunteer Fire Fighters Association, Boys and Girls Clubs, etc.

Considering Hazard, Flood and other Insurance Protection

It is very important to keep hazard insurance complete and up to date. Flood insurance is also needed if you are located in a federally designated flood plain area. These are required by lenders before closing. You should make sure your hazard insurance policy contains an inflation rider which automatically

increases the coverage as the value of the home increases. It is important to be sure replacement cost new is provided rather just value. Other insurance available would include a homeowners warranty and insurance from the place of purchase that extends the warranty period for new equipment. Mortgage life insurance pays off the mortgage at the borrower's death. You may wish to consider all of the preceding insurance as good investments; however, you will have to include the cost for each in your expenses.

LOWERING YOUR MORTGAGE PAYMENTS

It is possible to lower monthly mortgage payments by refinancing the mortgage on your home. The decision to refinance a mortgage depends on the interest rate available for a new mortgage, discount points and the amount of closing costs to be paid. Typically, there needs to be at least a two percent difference between your mortgage and the new mortgage that is available. Refinancing may not be a good idea for you if you have a prepayment penalty on your mortgage.

LOOKING FOR HOMESAVER ASSISTANCE

You should contact your lender immediately if you are unable to make a mortgage payment. The main reason homeowners fail to make mortgage payments is usually due to a loss of income related to divorce or marital problems, death of a family member, job loss and/or the inability to replace income, major illness and/or large medical bills, etc. You should immediately contact a housing counseling agency for assistance in straightening out your financial difficulties and helping you deal with your lending institution.

CASE STUDY - THE JOHNSON FAMILY

Cathy and Ben Johnson recently moved into the home of their dreams in order to accommodate their growing family. Cathy, while cooking dinner, noticed water leaking from a light fixture in the ceiling. When Ben arrived home, he checked it out and immediately realized it was from a leaking roof that needed to be replaced. During dinner Cathy revealed to him that the doctor advised her to take leave from her job in order to carry her baby to term. This news alarmed Ben because earlier that day he received a notice of job termination effective immediately due to a downsizing.

Ben decided that Cathy should be aware of his situation. He informed her of his pending job termination meaning they would have to pay the full cost of their much needed medical insurance. They sat down to discuss the changes needed in order to pay their bills. It became obvious that their limited resources would not allow them to continue making mortgage payments, pay their many medical bills, or replace the roof.

What should they do?

GROUP DISCUSSION

Questions:

1) It's a cold winter's night and you find that the heating unit in your home is not working. What do you do?

2) How do you respond to your neighbor who comes to your front door to tell you your child has broken their window?

3) You come home and find your spouse in need of emergency care. You have an infant and a young child who need attention while you take your spouse to the emergency room. What steps would you take in this situation?

4) What do you do if you are unable to make a monthly mortgage payment?

5) You receive a notice about a next door neighbor who is planning an addition that will result in the destruction of trees on your property. What should you do?

6) You suspect your neighbor is allowing their dog to relieve itself at night on your property. How would you solve this problem?

7) You want to make an addition to your home. What do you do?

8) You have heard that your neighbor received a grant to improve heating unit efficiency. Where would you go to get more information

9) You have read in the newspaper how interest rates are at an all time low and many homeowners are refinancing their mortgages. Should you take advantage of this opportunity? What steps do you take?

10) Fall is here and leaves have accumulated on your lawn. How will you remove them from your property if burning is not permitted?

11) You buy a new stereo, you install it, you turn it on and the lights go out. What do you do?

NOTES

FORMS and WORKSHEETS

NOTES

Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower", as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when ☐ the income or assets of a person other than the "Borrower" (including the Borrower's spouse) will be used as a basis for loan qualification or ☐ the income or assets of the Borrower's spouse will not be used as a basis for loan qualification, but his or her liabilities must be considered because the Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

I. TYPE OF MORTGAGE AND TERMS OF LOAN

Mortgage Applied for: ☐ VA ☐ FHA ☐ Conventional ☐ FmHA ☐ Other: | Agency Case Number | Lender Case No.

Amount $ | Interest Rate | No. of Months | Amortization Type: ☐ Fixed Rate ☐ GPM ☐ Other (explain): ☐ ARM (type):

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address (street, city, state & zip code) | No. of Units

Legal Description of Subject Property (attach description if necessary) | Year Built

Purpose of Loan: ☐ Purchase ☐ Refinance ☐ Construction ☐ Construction-Permanent ☐ Other (explain): | Property will be: ☐ Primary Residence ☐ Secondary Residence ☐ Investment

Complete this line if construction or construction-permanent loan.

Year Lot Acquired	Original Cost	Amount Existing Liens	(a) Present Value of Lot	(b) Cost of Improvements	Total (a + b)
	$	$	$	$	$

Complete this line if this is a refinance loan.

Year Acquired	Original Cost	Amount Existing Liens	Purpose of Refinance	Describe Improvements: ☐ made ☐ to be made	Cost: $
	$	$			

Title will be held in what Name(s) | Manner in which title will be held | Estate will be held in: ☐ Fee Simple ☐ Leasehold (show expiration date)

Source of Down Payment, Settlement Charges and/or Subordinate Financing (explain)

III. BORROWER INFORMATION

Borrower	Co-Borrower
Borrower's Name (include Jr. or Sr. if applicable)	Co-Borrower's Name (include Jr. or Sr. if applicable)
Social Security Number / Home Phone (incl. area code) / Age / Yrs. School	Social Security Number / Home Phone (incl. area code) / Age / Yrs. School
☐ Married ☐ Unmarried (include single, divorced, widowed) ☐ Separated / Dependents (not listed by Co-Borrower) no. / ages	☐ Married ☐ Unmarried (include single, divorced, widowed) ☐ Separated / Dependents (not listed by Borrower) no. / ages
Present Address (street, city, state, zip code) ☐ Own ☐ Rent ____ No. Yrs.	Present Address (street, city, state, zip code) ☐ Own ☐ Rent ____ No. Yrs.
If residing at present address for less than two years, complete the following:	
Former Address (street, city, state, zip code) ☐ Own ☐ Rent ____ No. Yrs.	Former Address (street, city, state, zip code) ☐ Own ☐ Rent ____ No. Yrs.
Former Address (street, city, state, zip code) ☐ Own ☐ Rent ____ No. Yrs.	Former Address (street, city, state, zip code) ☐ Own ☐ Rent ____ No. Yrs.

IV. EMPLOYMENT INFORMATION

Borrower	Co-Borrower
Name & Address of Employer ☐ Self Employed / Yrs. on this job / Yrs. employed in this line of work/profession	Name & Address of Employer ☐ Self Employed / Yrs. on this job / Yrs. employed in this line of work/profession
Position/Title/Type of Business / Business Phone (incl. area code)	Position/Title/Type of Business / Business Phone (incl. area code)
If employed in current position for less than two years or if currently employed in more than one position, complete the following:	
Name & Address of Employer ☐ Self Employed / Dates (from-to) / Monthly Income $	Name & Address of Employer ☐ Self Employed / Dates (from-to) / Monthly Income $
Position/Title/Type of Business / Business Phone (incl. area code)	Position/Title/Type of Business / Business Phone (incl. area code)
Name & Address of Employer ☐ Self Employed / Dates (from-to) / Monthly Income $	Name & Address of Employer ☐ Self Employed / Dates (from-to) / Monthly Income $
Position/Title/Type of Business / Business Phone (incl. area code)	Position/Title/Type of Business / Business Phone (incl. area code)

SC-PLA (10/92)1003.L

BEST COPY AVAILABLE

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

Gross Monthly Income	Borrower	Co-Borrower	Total
Base Empl. Income*	$	$	$
Overtime			
Bonuses			
Commissions			
Dividends/Interest			
Net Rental Income			
Other (before completing, see the notice in "describe other income," below)			
Total	$	$	$

*Self-Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.

Combined Monthly Housing Expense	Present	Proposed
Rent	$	
First Mortgage (P&I)		$
Other Financing (P&I)		
Hazard Insurance		
Real Estate Taxes		
Mortgage Insurance		
Homeowner Assn. Dues		
Other		
Total	$	$

Describe Other Income *Notice:* **Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.**

B/C		Monthly Amount
		$

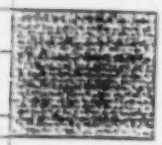
VI. ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-Borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise separate Statements and Schedules are required. If the Co-Borrower section was completed about a spouse, this Statement and supporting schedules must be completed about that spouse also.

Completed ☐ Jointly ☐ Not Jointly

ASSETS Description	Cash or Market Value
Cash deposit toward purchase held by	$
List checking and savings accounts below	
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Stocks & Bonds (Company name, number & description)	$
Life insurance net cash value	$
Face amount: $	
Subtotal Liquid Assets	$
Real estate owned (enter market value from schedule of real estate owned)	$
Vested interest in retirement fund	$
Net worth of business(es) owned (attach financial statement)	$
Automobiles owned (make and year)	$
Other Assets (itemize)	$
Total Assets a.	$

LIABILITIES	Monthly Pmt. & Mos. Left to Pay	Unpaid Balance
Name and address of Company	$ Pmt./Mos.	$
Acct. no.		
Name and address of Company	$ Pmt./Mos.	$
Acct. no.		
Name and address of Company	$ Pmt./Mos.	$
Acct. no.		
Name and address of Company	$ Pmt./Mos.	$
Acct. no.		
Name and address of Company	$ Pmt./Mos.	$
Acct. no.		
Name and address of Company	$ Pmt./Mos.	$
Acct. no.		
Alimony, Child Support, Separate Maintenance Payments Owed to:	$	
Job-Related Expense (child care, union dues, etc.)	$	
Total Monthly Payments	$	
Net Worth (a minus b)	$	Total Liabilities b. $



Freddie Mac Form 65, Rev. 10/92

Page 2 of 4 pages. The previous page has been completed on this page is true and correct: _____

Fannie Mae Form 1003, Rev. 10/92

DC-FLA//0192//1003.4

BEST COPY AVAILABLE

VI. ASSETS AND LIABILITIES (cont.)

Schedule of Real Estate Owned (If additional properties are owned, use continuation sheet.)

Property Address (enter S if Sold, PS if pending sale or R if rental being held for income)	Type of Property	Present Market Value	Amount of Mortgages & Liens	Gross Rental Income	Mortgage Payments	Insurance, Maintenance, Taxes & Misc.	Net Rental Income
		$	$	$	$	$	$
Totals		$	$	$	$	$	$

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):

Alternate Name	Creditor Name	Account Number

VII. DETAILS OF TRANSACTION

a. Purchase price	$
b. Alterations, improvements, repairs	
c. Land (if acquired separately)	
d. Refinance (incl. debts to be paid off)	
e. Estimated prepaid items	
f. Estimated closing costs	
g. PMI, MIP, Funding Fee	
h. Discount (if Borrower will pay)	
i. Total costs (add items a through h)	
j. Subordinate financing	
k. Borrower's closing costs paid by Seller	
l. Other Credits (explain)	
m. Loan amount (exclude PMI, MIP, Funding Fee financed)	
n. PMI, MIP, Funding Fee financed	
o. Loan amount (add m & n)	
p. Cash from/to Borrower (subtract j, k, l & o from i)	

VIII. DECLARATIONS

If you answer "yes" to any questions a through i, please use continuation sheet for explanation.

	Borrower Yes	Borrower No	Co-Borrower Yes	Co-Borrower No
a. Are there any outstanding judgments against you?	☐	☐	☐	☐
b. Have you been declared bankrupt within the past 7 years?	☐	☐	☐	☐
c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	☐	☐	☐	☐
d. Are you a party to a lawsuit?	☐	☐	☐	☐
e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? (This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name and address of Lender, FHA or VA case number, if any, and reasons for the action.)	☐	☐	☐	☐
f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee? If "Yes," give details as described in the preceding question.	☐	☐	☐	☐
g. Are you obligated to pay alimony, child support, or separate maintenance?	☐	☐	☐	☐
h. Is any part of the down payment borrowed?	☐	☐	☐	☐
i. Are you a co-maker or endorser on a note?	☐	☐	☐	☐
j. Are you a U.S. citizen?	☐	☐	☐	☐
k. Are you a permanent resident alien?	☐	☐	☐	☐
l. Do you intend to occupy the property as your primary residence? If "Yes," complete question m below.	☐	☐	☐	☐
m. Have you had an ownership interest in a property in the last three years? (1) What type of property did you own—principal residence (PR), second home (SH), or investment property (IP)? (2) How did you hold title to the home—solely by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?	☐	☐	☐	☐

IX. ACKNOWLEDGMENT AND AGREEMENT

The undersigned specifically acknowledge(s) and agree(s) that: (1) the loan requested by this application will be secured by a first mortgage or deed of trust on the property described herein; (2) the property will not be used for any illegal or prohibited purpose or use; (3) all statements made in this application are made for the purpose of obtaining the loan indicated herein; (4) occupancy of the property will be as indicated above; (5) verification or reverification of any information contained in the application may be made at any time by the Lender, its agents, successors and assigns, either directly or through a credit reporting agency, from any source named in this application, and the original copy of this application will be retained by the Lender, even if the loan is not approved; (6) the Lender, its agents, successors and assigns will rely on the information contained in the application and I/we have a continuing obligation to amend and/or supplement the information provided in this application if any of the material facts which I/we have represented herein should change prior to closing; (7) in the event my/our payments on the loan indicated in the application become delinquent, the Lender, its agents, successors and assigns, may, in addition to all their other rights and remedies, report my/our name(s) and account information to a credit reporting agency; (8) ownership of the loan may be transferred to successors or assigns of the Lender without notice to me and/or the administration of the loan account may be transferred to an agent, successor or assign of the Lender with prior notice to me; (9) the Lender, its agents, successors and assigns make no representations or warranties, express or implied, to the Borrower(s) regarding the property, the condition or the value of the property.

The Ohio anti-discrimination statute requires that all creditors make credit equally available to all good credit customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio Civil Rights Commission administers compliance with this law.

Certification: I/We certify that the information provided in this application is true and correct as of the date set forth opposite my/our signature(s) on this application and acknowledge my/our understanding that any intentional or negligent misrepresentation(s) of the information contained in this application may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq. and liability for monetary damages to the Lender, its agents, successors and assigns, insurers and any other person who may suffer any loss due to reliance upon any misrepresentation which I/we have made on this application.

Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the Federal Government for certain types of loans related to a dwelling, in order to monitor the Lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a Lender may neither discriminate on the basis of this information, nor on whether you choose to furnish it. However, if you choose not to furnish it, under Federal regulations this Lender is required to note race and sex on the basis of visual observation or surname. If you do not wish to furnish the above information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the Lender is subject under applicable state law for the particular type of loan applied for.)

	BORROWER	CO-BORROWER
Race/National Origin	☐ I do not wish to furnish this information ☐ American Indian or Alaskan Native ☐ Asian or Pacific Islander ☐ White, not of Hispanic origin ☐ Black, not of Hispanic origin ☐ Hispanic ☐ Other (specify)	☐ I do not wish to furnish this information ☐ American Indian or Alaskan Native ☐ Asian or Pacific Islander ☐ White, not of Hispanic origin ☐ Black, not of Hispanic origin ☐ Hispanic ☐ Other (specify)
Sex	☐ Female ☐ Male	☐ Female ☐ Male

To be Completed by Interviewer		Name and Address of Interviewer's Employer
This application was taken by:	Interviewer's Name (print or type)	
☐ face-to-face interview ☐ by mail ☐ by telephone	Interviewer's Signature / Date	
	Interviewer's Phone Number (incl. area code)	

ISC/GLE//1093/1003.L

BEST COPY AVAILABLE

Borrower's Certificate. The undersigned certifies that

(a) I will not have outstanding any other unpaid obligations contracted in connection with the mortgage transaction or the purchase of the said property except obligations which are secured by property or collateral owned by me independently of the said mortgaged property, or obligations approved by the Commissioner.

(b) One of the undersigned intends to occupy the subject property. (Note: delete this item if owner occupancy is not required by the commitment).

(c) All charges and fees collected from me as shown in the settlement statement have been paid by my own funds, and no other charges have been or will be paid by me in respect to this transaction.

(d) Neither I, nor anyone authorized to act for me, will refuse to sell or rent, after the making of a bona fide offer, or refuse to negotiate for the sale or rental of, or otherwise make unavailable or deny the dwelling or property covered by this loan to any person because of race, color, religion, sex, handicap, familial status or national origin. I recognize that any restrictive covenant on this property relating to race, color, religion, sex , handicap, familial status or national origin is illegal and void and any such covenant is hereby specifically disclaimed. I understand that civil action for preventative relief may be brought by the Attorney General of the United States in any appropriate U.S. District Court against any person responsible for a violation of this certificate.

Borrower(s) Signature(s) & Date

X

Lender's Certificate. The undersigned certifies that to the best of its knowledge

(a) The statements made in its application for insurance and in this Certificate are true and correct.

(b) The conditions listed above or appearing in any outstanding commitment issued under the above case number have been fulfilled.

(c) Complete disbursement of the loan has been made to the borrower, or to his/her creditors for his/her account and with his/her consent.

(d) The security instrument has been recorded and is a good and valid first lien on the property described.

(e) No charge has been made to or paid by the borrower except as permitted under HUD regulations.

(f) The copies of the credit and security instruments which are submitted herewith are true and exact copies as executed and filed for record.

(g) It has not paid any kickbacks, fees or consideration of any type, directly or indirectly, to any party in connection with this transaction except as permitted under HUD regulations and administrative instructions.

I, the undersigned, as authorized representative of
mortgagee at the time of closing of this mortgage loan, certify that I have personally reviewed the mortgage loan documents, closing statements, application for insurance endorsement, and all accompanying documents. I hereby make all certifications required for this mortgage as set forth in HUD Handbook 4000.4.

Lender's Name	Note: If the approval is executed by an agent in the name of lender, the agent must enter the lender's code number and type.	
Signature & Title of Lender's Officer & Date X	Code Number (5 digits)	Type

form HUD 92900-A

OC: 92900-A HUD/VA ADDENDUM (10/91)(HUD)

BEST COPY AVAILABLE

Request for Verification of Employment

Privacy Act Notice: This information is to be used by the agency collecting it in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency without your consent except to your employer(s) for verification of employment and as required and permitted by law. You do not have to give us this information, but if you do not your application for approval as a prospective mortgagor may be delayed or rejected. The information requested in this form is authorized by Title 38, U.S.C., Chapter 37 (if VA), by 12 U.S.C., Section 1701 et. seq., (if HUD/FHA) and Title 42 U.S.C., 1471 et. seq., or U.S.C., 1921 et. seq., (if U.S.D.A. FmHA)

Instructions: LENDER OR LOCAL PROCESSING AGENCY (LPA): Complete Items 1 through 7. Have the applicant complete Item 8. Forward the completed form directly to the employer named in Item 1. EMPLOYER: Complete either Parts II and IV or Parts III and IV. Return form directly to the Lender or Local Processing Agency named in Item 2 of Part I.

Part I - Request

1. Name and Address of Employer

2. Name and Address of Lender or Processing Agent

I have applied for a mortgage loan or rehabilitation loan and stated that I am/was employed by you. My signature in the block below authorizes verification of my employment information.

3. Signature of Applicant

4. Employee's Identification

6. Name and Address of Applicant

5. I certify that this verification has been sent directly to the employer and has not passed through the hands of the applicant or any other interested party

Signature of Lender, Official of LPA, or FmHA Loan Packager

7. Title

8. Date

9. HUD/FHA/CPD, VA or FmHA No.

Part II - Verification of Present Employment

10. Present Position	11. Date of Employment	12. Probability of Continued Employment	13. If Overtime or Bonus, is its continuance likely?
			Overtime ☐ Yes ☐ No / Bonus ☐ Yes ☐ No

14. Current Base Pay

$ ☐ Annual ☐ Monthly ☐ Hourly ☐ Weekly ☐ Other (Specify)

15a. Earnings Year to Date	Past Year	16. For Military Personnel Only			
		Taxable Pay (Monthly Amount)		Nontaxable Pay (Monthly Amount)	
$	$	Base Pay	Career Pay	Quarters	VHA
b. Overtime Year to Date	Past Year	$	$	$	$
$	$	Flight Pay	Other (Specify)	Rations	Other (Specify)
c. Commissions Year to Date	Past Year	$		$	
$	$	Clothing			
d. Bonus Year to Date	Past Year	$	$	$	$
$	$				

17. **Remarks:** (If paid hourly, please indicate average hours worked each week during current and past year)

Part III - Verification of Previous Employment

18. Salary/Wage at Termination per: ☐ Year ☐ Month ☐ Week

Base Pay	Overtime	Commissions	Bonus
$	$	$	$

19. Dates of Employment

20. Position Held

21. Reasons for Leaving

Part IV - Certification

Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal connivance or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Administrator, the U.S.D.A., FmHA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

22. Signature

23. Title of Employer

24. Date

FileName: M0D3.ATN 8/29/96

Date Printed: August 29, 1996

BEST COPY AVAILABLE

REQUEST FOR VERIFICATION OF DEPOSIT

PRIVACY ACT NOTICE STATEMENT - This information is to be used by the agency collecting it in determining whether you qualify as a prospective mortgagor for mortgage insurance or guaranty or as a borrower for a rehabilitation loan under the agency's program. It will not be disclosed outside the agency without your consent except to financial institutions for verification of your deposits and as required and permitted by law. You do not have to give us this information, but, if you do not, your application for approval as a prospective mortgagor for mortgage insurance or guaranty or as a borrower for a rehabilitation loan may be delayed or rejected. This information request is authorized by Title 38, U.S.C., Chapter 37 (if VA) by 12 U.S.C., Section 1701 et seq., (if HUD/FHA), and by 42 U.S.C., Section 1452b (if HUD/CPD)

INSTRUCTIONS

LENDER OR LOCAL PROCESSING AGENCY: Complete items 1 through 8. Have applicant(s) complete item 9. Forward directly to the Depository named in item 1. DEPOSITORY: Please complete items 10 through 15 and return DIRECTLY to Lender or Local Processing Agency named in item 2.

PART I - REQUEST

1. TO (Name and Address of Depository)	2. FROM (Name and Address of Lender or Local Processing Agency)

I certify that this verification has been sent directly to the bank or depository and has not passed through the hands of the applicant or any other party.

3. Signature of Lender or Official of Local Processing Agency	4. Title	5. Date	6. Lender's No. (Optional)

7. INFORMATION TO BE VERIFIED

Type of Account and/or Loan	Account/Loan in Name of	Account/Loan Number	Balance
			$
			$
			$
			$

TO DEPOSITORY: I have applied for mortgage insurance or guaranty or for a rehabilitation loan and stated that the balance on deposit and/or outstanding loans with you are as shown above. You are authorized to verify this information and to supply the lender or the local processing agency identified above with the information requested in items 10 through 12. Your response is solely a matter of courtesy for which no responsibility is attached to your institution or any of your officers.

8. NAME AND ADDRESS OF APPLICANT(S)	9. SIGNATURE OF APPLICANT(S)

TO BE COMPLETED BY DEPOSITORY

PART II - VERIFICATION OF DEPOSITORY

10. DEPOSIT ACCOUNTS OF APPLICANT(S)

Type of Account	Account Number	Current Balance	Average Balance for Previous Two Months	Date Opened
		$	$	
		$	$	
		$	$	
		$	$	

11. LOANS OUTSTANDING TO APPLICANT(S)

Loan Number	Date of Loan	Original Balance	Current Balance	Installments (Monthly/Quarterly)	Secured by	No. of Late Pmt.'s within Last 12 Mo.
		$	$	$ per		
		$	$	$ per		
		$	$	$ per		

12. ADDITIONAL INFORMATION WHICH MAY BE OF ASSISTANCE IN DETERMINATION OF CREDIT WORTHINESS. Please include information on loans paid in full as in item 11 above)

13. Signature of Depository Official	14. Title	15. Date

The confidentiality of the information you have furnished will be preserved except where disclosure of this information is required by applicable law. The completed form is to be transmitted directly to the lender or local processing agency and is not to be transmitted through the applicant or any other party.

BEST COPY AVAILABLE

1. DEPOSIT AND PROPERTY

(DATE OF CONTRACT) _____, 19____, RECEIVED by _____ (specify agent) (the "Escrow Agent") from the undersigned Purchaser a deposit in the amount set forth in Paragraph 2a.i. hereof in the form of (CASH/CHECK/NOTE) _____, which if in the form of cash or check shall be deposited expeditiously by said Escrow Agent in an (INTEREST/NON-INTEREST) _____ bearing escrow account in a District of Columbia financial institution after final ratification of this contract. Any interest shall be paid to Purchaser at settlement, or to Seller in the event of a forfeiture of deposit pursuant to Paragraph 11c. The deposit shall be applied as part payment of the Purchase Price, in the amount set forth in Paragraph 2c. hereof, of the premises known as _____ Washington, D.C., Zip Code _____ Lot _____, Square _____, with improvements thereon (collectively, the "Property"), including built in heating plant and air-conditioning system, all plumbing and lighting fixtures, kitchen equipment, including range, refrigerator, built-in dishwasher, trash-compactor and disposal, all wall-to-wall carpeting, cornices, curtain and drapery rods, awnings, T.V. antennas, screens, storm doors and storm windows, venetian blinds, shades, indoor shutters, trees, shrubs and plants, alarm system (with a transfer fee of $_____ and a monthly service fee of $ _____) and _____, if the foregoing are installed on the Property and owned by Seller as of the above date, upon the terms of sale set forth herein.

2. PAYMENT OF PURCHASE PRICE

The Purchase Price of the Property shall be paid as follows:

a. **Cash Downpayment**	i. Deposit with Contract	$ _____		
	ii. Balance of Downpayment at Settlement	$ _____		
	TOTAL DOWNPAYMENT		$ _____	
b. **Financing**	i. First Trust	$ _____		
	ii. Second Trust	$ _____		
	iii. Trust (Seller to Take Back)	$ _____		
	TOTAL FINANCING		$ _____	
c. TOTAL PURCHASE PRICE OF PROPERTY			$ _____	

3. FINANCING

a. First Trust (If FHA or VA financing is used, see Addendum attached.) The Purchaser is to (PLACE/TAKE TITLE SUBJECT TO/ASSUME) _____ _____ a (CONVENTIONAL FIXED RATE/ARM/FHA/VA) _____ first deed of trust in lender's usual form secured by said Property in the amount set forth in Paragraph 2b i. hereof due in ____ years and bearing interest at the rate of ____ percent per annum or, in cases other than assumptions, the prevailing rate at time of settlement, payable approximately $ _____ monthly, plus one-twelfth of annual taxes, fire insurance and private mortgage insurance if required by lender.

b. Second Trust. The Purchaser is to (PLACE/TAKE TITLE SUBJECT TO/ASSUME) _____ a second deed of trust in lender's usual form secured by said Property in the amount set forth in Paragraph 2b ii. hereof due in ____ years and bearing interest at the rate of ____ percent per annum, payable approximately $ _____ monthly.

c. Trust (Seller to Take Back). The deferred purchase money note in the amount set forth in Paragraph 2b iii. hereof as part of the purchase price is to be secured by a _____ deed of trust in usual form on said Property, to be paid in monthly installments of $ _____ or more, without penalty, at maker's option, including interest at the rate of _____ percent per annum. The entire unpaid balance shall be due in full within _____. If this Paragraph 3c. is applicable, this contract shall not be assigned without the prior written consent of the Seller. (See additional terms on addendum attached.)

4. CONVENTIONAL FIXED RATE/ARM FINANCING CONTINGENCY

This contract is contingent on the ability of Purchaser to secure or receive a written commitment for the herein described financing, to take title subject to any existing deeds of trust, or to obtain lender's approval of any assumption, if required, within _____ calendar days from the date of final ratification of this contract, which commitment or approval Purchaser agrees to pursue diligently. Purchaser reserves the right to increase the cash downpayment and/or to accept a modified commitment for financing. If Purchaser has diligently pursued obtaining financing and has provided all information requested in a timely manner, as required by Paragraph 9b v. hereof, and the lender needs additional time to finish processing the loan, prior to the expiration of the _____ day period Purchaser or Seller may extend this contingency period for an additional 15 days by notifying all parties of the intention to do so, and by providing them with evidence from the lender that all information received by it to date shows that the loan should be approved. If, after making every reasonable effort, Purchaser is unable to obtain the herein specified financing and notifies Seller of this fact in writing within the term of this contingency, this contract shall become null and void and Purchaser's deposit shall be refunded in full. IF PURCHASER FAILS TO GIVE ANY OF THE ABOVE NOTICES, THIS CONTINGENCY SHALL AUTOMATICALLY EXPIRE AND THIS CONTRACT SHALL REMAIN IN FULL FORCE AND EFFECT, UNLESS OTHERWISE STATED HEREIN.

5. SETTLEMENT

a. Date of Settlement. Within ____ days from the date of final ratification of this contract, or as soon thereafter as a report on the title can be secured if promptly ordered, and survey obtained, if required, and loan processed, all if promptly applied for, Seller and Purchaser agree to make full settlement in accordance with the terms hereof.

b. Place of Settlement. THE PURCHASER HAS THE RIGHT TO SELECT THE SETTLEMENT OFFICE. Purchaser hereby authorizes any of the undersigned Agents to order the examination of title, a survey, and the preparation of necessary conveyancing papers through _____ (to be named within 10 days of ratification).

c. Payment of Downpayment. Purchaser agrees to pay by certified check at settlement a downpayment in the amount set forth in Paragraph 2a. hereof, of which sum the above deposit shall be a part; if the deposit exceeds the downpayment, any excess shall apply first to settlement costs and the balance shall be refunded to Purchaser at settlement.

d. Payment of Conventional Loan Fees. If a new loan is to be placed under this contract, the Purchaser agrees to pay by certified check at settlement a loan fee (i.e. points) of ____% of the principal sum of the loan. The Seller agrees to pay a loan fee of ____% of the principal sum of the loan. The above fees are based on the present mortgage money market, and the Purchaser will comply with any reasonable increase or decrease in such fees. All other lender's fees shall be paid by Purchaser by certified check at settlement based on lender's good faith estimate of closing costs, (including Private Mortgage Insurance Premium) as required by lender.

e. Payment of Settlement Costs. Purchaser agrees to pay by certified check at settlement the settlement charges in connection with the examination of title, the survey, the preparation of all necessary conveyancing papers, tax certificate, conveyancing, settlement fee, notary fees and recording charges, except those incident to clearing existing encumbrances. The D.C. Recordation Tax will be paid by the Purchaser and the D.C. Transfer Tax will be paid by the Seller. Seller hereby agrees to pay a reasonable closing fee for services rendered to Seller, and to pay any above-mentioned costs incurred if upon examination the title should be found defective and it is not remedied as stated herein.

f. Taking Title. Property is to be conveyed in the names of _____

6. TENANCY

If there is no existing tenancy, Seller agrees to give possession of the Property at the time of settlement, and if Seller fails to do so and occupies the Property, Seller shall become and thereafter be a tenant at sufferance of Purchaser, and hereby expressly waives all notice to quit provided by law. The Property is sold and shall be conveyed free of any existing tenancy, except as follows: _____ (hereinafter the "Tenant(s)"). See Addendum attached.

7. D.C. SOIL DISCLOSURE REQUIREMENTS

The characteristic of the soil on the subject Property as described by the Soil Conservation Service of the United States Department of Agriculture in the Soil Survey of the District of Columbia published in 1976 and as shown on the Soil Maps of the District of Columbia at the back of that publication is _____. For further information, the Purchaser can contact a soil testing laboratory, the District of Columbia Department of Environmental Services, or the Soil Conservation Service of the Department of Agriculture.

8 AGENCY AND BROKERAGE FEES

a. The parties recognize the following agents negotiating this contract:
(1) _____ of broker _____, representing the Seller as Listing Broker
and (2) _____ of broker _____, representing the Seller as Subagent
and (3) _____ of broker _____, representing the Purchaser as Buyer's Broker
(said agents are collectively referred to as the "Agents").

b. The respective Agents shall be paid brokerage fees at the time of settlement as specified in separate agreements with the respective Agents. The settlement office shall disburse brokerage fees as per said separate agreements.

c. It is understood and agreed by all parties that Buyer's Broker is acting as an agent solely representing the Purchaser in this transaction.

BEST COPY AVAILABLE

d. It is understood and agreed by all parties that Listing Broker shall pay a portion of the Listing Broker's brokerage fee to the Buyer's Broker per separate agreement between the Listing Broker and Buyer's Broker. The settlement office shall disburse the Buyer's Broker fee at the time of settlement as per said separate agreement. [Delete this clause (d) if Buyer's Broker is to be paid by Purchaser or Seller directly. Use form Addendum or other acceptable provision.]

9. ADDITIONAL FINANCING CONDITIONS

General Financial Provisions.

a. In the event that mortgages are used rather than deeds of trust, the word "mortgage" shall be substituted automatically.

b. If this contract provides for the assumption of existing trust(s) or for purchase subject to existing trust(s), it is understood that the balance of such trust(s) an the cash downpayment are approximate amounts. A COPY OF THE EXISTING TRUST(S) AND NOTE(S) ARE ATTACHED HERETO. Any change(s) require by the lender in order that the trust may be assumed will be subject to the Purchaser's consent, if assumption is promptly applied for.

c. Trustees in all deeds of trust are to be named by the parties secured thereby.

d. Seller shall allow inspections of all the Property and furnish any pertinent information required by Purchaser or Purchaser's financing agency in reference t obtaining a loan commitment.

e. If this contract provides for financing: Purchaser placing financing agrees to make application immediately and file all necessary papers that are required t complete processing and agrees that failure to do so within seven (7) days after final ratification of this contract, or to promptly comply with all further request from lender for additional information, shall give Seller the right to declare the deposit forfeited or avail himself of any legal or equitable rights as provided in th paragraph labeled "FORFEITURE OF DEPOSIT/LIQUIDATED DAMAGES."

f. Seller agrees to comply with reasonable lender requirements for repairs.

10. CONSUMER REPORT AUTHORIZATION

A financial or credit information statement signed by Purchaser is to be submitted together with this contract.

Purchaser hereby authorizes each of the Agents to disclose (and to provide a signed copy) to Seller or any lender the financial or credit information statemer provided to such Agent by Purchaser. In the event the terms of this contract require Seller to take back financing from Purchaser, this contract shall be contingen upon approval of a satisfactory Consumer Report (Credit Report) by Seller within 5 days after receipt of said report by Seller; provided, however, that Seller order or notifies Seller's Agent to order said report immediately after the final ratification of this contract. If Seller does not approve the credit standing of Purchaser, an Purchaser is so notified in writing by Seller within 5 days after receipt of the Consumer Report, this contract shall be null and void and the deposit returned t Purchaser. Purchaser hereby authorizes each Agent to order and obtain a Consumer Report from a Consumer Reporting Agency to be used only in connectio with this transaction. Further, in the event such Agent is acting on behalf of a creditor, Seller or other party directly affected by said transaction, Purchaser hereb authorizes such Agent to forward all or any portion of the information contained in the Consumer Report to the creditor, Seller or other party directly involved. Cos of said Consumer Report is to be borne by Purchaser. Except as stated herein, the Consumer Report is confidential and the information contained therein sha not be knowingly released to others without the written consent of Purchaser. Purchaser hereby certifies that all income and credit information furnished i connection with this purchase is true and accurate to the best of Purchaser's knowledge.

11. ADDITIONAL SETTLEMENT PROVISIONS

a. Performance. Settlement is to be made at the settlement office designated in Paragraph 5. Delivery to the settlement office of the cash payment an settlement costs as herein stated, the executed deed of conveyance and such other papers as are required of either party by the terms of this contract shall b considered good and sufficient tender of performance in accordance with the terms hereof. It is agreed that funds arising out of this transaction at settlement ma be used to pay off any existing encumbrances, including interest, as required by lender.

b. Adjustments. Rents, taxes, water, sewer, oil, escrow for taxes and insurance, insurance (except FHA Mortgage Insurance Premium), and interest on existin encumbrances, if any, and other operating charges are to be adjusted to the date of settlement. Rent security deposits, if any, plus interest, shall be transferre to Purchaser at time of settlement. Taxes, general and special, are to be adjusted according to the certificate of taxes issued by the D.C. Department of Financ and Revenue, except that assessments for improvements completed prior to the date of acceptance hereof, whether assessment therefor has been levied or not shall be paid by Seller or allowance made therefor at the time of settlement.

c. Forfeiture of Deposit/Liquidated Damages. If Purchaser fails to make full settlement as hereby required, the deposit herein provided for shall be forfeitec as liquidated damages (in which event Purchaser shall be relieved from further liability hereunder), unless Seller notifies Purchaser and each of the Agents i writing within thirty (30) days after the date provided for settlement herein of his election to avail himself of any legal or equitable rights, other than the sai liquidated damages, which he may have under this contract. In the event Seller so elects to avail himself of legal or equitable rights as aforesaid, Seller shal execute and deliver to Escrow Agent with such notice an Agreement of Release (as defined below) for execution by Purchaser, and upon such execution by Purchaser and delivery of the Agreement of Release to Escrow Agent, the deposit shall be returned to Purchaser by Escrow Agent holding the same and no Agen shall be liable to Seller for return of said deposit. In the event of the forfeiture of the deposit as liquidated damages or in the event of an award of damages by a court or a compromise agreement between Seller and Purchaser, Seller shall allow or pay Listing Agent one-half thereof as compensation for services rendered said amount not to exceed the amount of the full brokerage fee. Nothing herein shall prevent Listing Agent from holding Seller liable for the full amount of any commissions to which Listing Agent may be entitled. Seller and Purchaser agree that Escrow Agent who holds the deposit given by Purchaser shall have the righ to disburse the deposit and accrued interest thereon upon settlement of this contract, and that in the event settlement does not occur for any reason the deposi and accrued interest thereon shall only be given or returned by Escrow Agent to any of the parties to this contract i. when an "Agreement of Release", in which al parties authorize and direct the disposition of the deposit as therein specified, has been signed by all such parties and delivered to Escrow Agent, or ii. as directed by a court order. If either Seller or Purchaser refuses to execute an Agreement of Release when requested to do so in writing and a court finds that such party should have executed same, the party who so refused to execute an Agreement of Release shall pay the reasonable expenses, including, without limitation reasonable attorney's fees, incurred by the other party in the litigation. The parties hereto hereby agree that no Agent shall have any liability to any party on account of disbursement of the deposit or on account of failure to disburse the deposit, except only in the event of such Agent's gross negligence or willfu misconduct. The parties further agree that the Escrow Agent and the other Agents shall not be liable for the failure of any depository in which the deposit is placed, and that Seller and Purchaser each will indemnify, defend and save harmless the Escrow Agent and the other Agents from and against every claim, liability, cost, damage, loss or expense arising out of the holding, disbursement or failure to disburse the deposit, except in the case of such Agent's gross negligence or willfu misconduct.

d. Conveyance. Seller agrees to execute and deliver a good and sufficient special warranty deed. Purchaser agrees to have the deed of conveyance recorded promptly.

ADDITIONAL PARAGRAPHS NUMBERED 12 THROUGH 16 SET FORTH ON THE REVERSE SIDE OF THIS CONTRACT ARE INCORPORATED HEREIN AND MADE A PART HEREOF AND ALL PARTIES ACKNOWLEDGE THAT THEY HAVE READ SAID PARAGRAPHS.

WE, THE UNDERSIGNED, HEREBY RATIFY, ACCEPT AND AGREE TO THIS CONTRACT AND ACKNOWLEDGE RECEIPT OF A COPY THEREOF.

THIS IS A LEGALLY BINDING CONTRACT. IF YOU DO NOT UNDERSTAND ALL OF THE TERMS OF THIS DOCUMENT, SEEK COMPETENT LEGAL ADVICE BEFORE SIGNING IT.

ADDENDUM ATTACHED _____ Yes ____ No

I hereby certify that I have received and read a copy of the disclosure notice in Paragraph 16 prior to signing this Contract.

Purchaser _____

_____	_____
SELLER (Print name also)	PURCHASER (Print name also)
_____	_____
SELLER (Print name also)	PURCHASER (Print name also)
_____	_____
ADDRESS (if other than premises)	ADDRESS OF PURCHASER
_____	_____
LISTING BROKER	SUBAGENT OR BUYER BROKER (strike one)
_____	_____
ADDRESS	ADDRESS

THE SELLER OR PURCHASER, WHICHEVER ONE PROVIDES FINAL RATIFICATION, SHALL COMPLETE THE FOLLOWING.

DATE OF FINAL RATIFICATION _____ TIME OF FINAL RATIFICATION _____ BY _____ (INITIALS ONLY)

BEST COPY AVAILABLE

12 PROPERTY

a. Property Condition. Seller, at the time of settlement or occupancy (whichever occurs first), will leave the Property free and clear of trash and debris and broom clean, will leave the electrical, plumbing, heating, air-conditioning and any other mechanical systems and equipment included in this contract in operating condition, and will deliver the Property in substantially the same physical condition as of the date of this contract. Purchaser has the privilege of a pre-settlement inspection of the Property. All notices of violations of municipal orders or requirements noted or issued by any department or agency of the District of Columbia, or prosecutions in any courts on account thereof, against or affecting the Property at the date of this contract shall be complied with by Seller and the Property conveyed free thereof, with the exception of the means of egress regulations.

b. Termite Inspection. Prior to the time of settlement, Seller shall order a termite inspection, and no later than the time of settlement Seller shall pay the costs of termite inspection and provide to Purchaser a written certification from a licensed exterminator that, based upon a careful visual inspection of accessible areas of the house, any garage, and any accessory buildings, there is no evidence of infestation of termites or wood-boring insects. If such infestation exists, Seller is to exterminate, using a licensed exterminator. Seller at his own expense and prior to settlement shall repair any prior or current visible damage caused by termites or wood-boring insects.

c. Risk of Loss. The risk of loss or damage to said Property by fire or other casualty is assumed by Seller until the executed deed of conveyance is delivered to the Purchaser or is recorded by the settlement office conducting the conveyance, whichever shall occur first.

d. Title. The Property, including the personal property described in Paragraph One above, is sold free of encumbrances, except as stated herein. Title is to be good of record and marketable subject, however, to covenants, rights of way, easements, conditions and restrictions of record, if any, on the date of execution of this contract by Purchaser, otherwise the deposit is to be returned and sale declared off at the option of the Purchaser, unless the defects are of such character that they may readily be remedied by legal action, but the Seller and the Agents are hereby expressly released from all liability for damages by reason of any defect in the title. In case legal steps are necessary to perfect the title, such action must be taken promptly by and at the Seller's expense, whereupon the time herein specified for full settlement by the Purchaser will thereby be extended for the period necessary for such action.

13 NOTICES

All notices required or permitted herein shall be in writing and effective as of the date on which such notice is mailed in any United States Post Office by certified or registered mail, postage prepaid, or hand delivered to Seller or Listing Broker and to Purchaser or Buyer's Broker (if any) in each case at the addresses specified in the signature lines of this contract or to such other addresses as the parties may designate in writing from time to time. Delivery of notice to Subagent shall not constitute notice to Seller.

14 CONTRACTING PARTIES

The principals to this contract mutually agree that it shall be binding upon them, their heirs, executors, administrators, personal representatives, successors and assigns; that the provisions hereof shall survive the execution and delivery of the deed herein stated and shall not be merged therein; that this contract contains the final and entire agreement between the parties hereto, and neither they nor their agents shall be bound by any terms, conditions, statements, warranties or representations, oral or written, not herein contained. The Agents assume no responsibility for the condition of the Property nor for the performance of this contract by any or all parties hereto.

15 AGREEMENT

Without limiting the means of ratifying this contract, the parties agree that ratification of this contract may be accomplished by signing same or by transmitting assent through a wired or electronic medium which produces a tangible record of the transmission (such as a telegram, mailgram, datagram or facsimile), and that such ratification shall be binding on the parties.

16 UNDERGROUND STORAGE TANK DISCLOSURE

In accordance with the requirements of Section 3(g) of the District of Columbia Underground Storage Tank Management Act of 1990 (D.C. Code Section 6-995.2), as amended by the District of Columbia Underground Storage Tank Management Act of 1990 Amendment Act of 1992 (the "Act") and the regulations adopted thereunder by the District of Columbia (the "Regulations"), Seller hereby informs Purchaser that Seller has no knowledge of the existence or removal during Seller's ownership of the Property of any underground storage tanks as that term is defined in the Act and the Regulations, except as follows: _____

_____

_____

BEST COPY AVAILABLE

Addendum

Special provisions attached to and hereby made a part of the contract dated _____, 19____ for the property known as _____ _____, Washington, D.C., Zip Code_____ by and between the undersigned Seller(hereinafter referred to as Seller) and the undersigned Purchaser (herein referred to as Purchaser). (NOTE: BROKERS MAY WISH TO HAVE THEIR LEGAL COUNSEL REVIEW THESE CLAUSES PRIOR TO USE.)

_____ Initials The parties agree that only those provisions which they have initialed below in the spaces provided are made part of the aforesaid contract. In the event of any inconsistency between any initialled provision in this Addendum and any provision in the contract to which it is attached, the initialled provision in this Addendum shall prevail. Provisions in this Addendum which are not initialled are not a part of the contract between the parties.

_____ Initials **1. SPECIFIC INSPECTION CONTINGENCY**

This contract shall be contingent until 5:00p.m. on the_____day after final ratification of this contract, to allow an inspection of subject property by a party of Purchaser's choice and at Purchaser's expense for defects in structure, plumbing, heating, air conditioning (excluding portable units), electrical system or leaks in the roof, gutters or downspouts; provided, however, that in the event the contract is for sale of a condominium or cooperative unit, Purchaser's right to inspect and this contingency shall apply only to such of the aforesaid items as are Seller's obligation to repair under the Condominium Instruments or Proprietary Documents. In the event defects are discovered in any of the above items, Purchaser shall notify Seller in writing and provide therewith a copy of the inspection report within said time period in the manner set forth in the NOTICES Paragraph hereof; otherwise, this contingency shall be deemed to have been waived by Purchaser and this contract shall remain in full force and effect.

Upon receipt of such report, Seller shall have the option of 1. remedying said defects at Seller's expense prior to settlement, or 2. refusing to remedy the defects. If Seller refuses to remedy said defects, Seller shall notify Purchaser in writing of such decision within two (2) days from receipt of Purchaser's notice in the manner set forth in the NOTICES Paragraph hereof; otherwise, Seller shall be obligated to remedy the defects prior to settlement and this contract shall remain in full force and effect.

In the event Seller refuses to remedy said defects, Purchaser shall have the right to cancel this contract and receive a full refund of the deposit by providing written notice of cancellation to Seller within one (1) day from receipt of Seller's refusal to remedy defects, in the manner set forth in the NOTICES Paragraph hereof; otherwise this contract shall remain in full force and effect.

UNLESS OTHERWISE STATED HEREIN, IT IS FURTHER AGREED AND UNDERSTOOD THAT ANY INSPECTION(S) OF THE SUBJECT PROPERTY MADE HEREUNDER SHALL BE IN ADDITION TO AND NOT IN LIEU OF INSPECTION(S) AND PROVISIONS CONCERNING THE CONDITION OF THE SUBJECT PROPERTY REFERRED TO IN THE PARAGRAPHS OF THIS CONTRACT ENTITLED PROPERTY CONDITION AND TERMITE INSPECTION.

_____ Initials **2. GENERAL INSPECTION CONTINGENCY**

This contract is contingent until 5:00p.m. on the_____day after final ratification of this contract, to allow an inspection of subject property by a party of Purchaser's choice, as selected by Purchaser and at Purchaser's expense. In the event of an unsatisfactory inspection report, as determined by Purchaser in his sole discretion, Purchaser shall have the right to declare this contract null and void and receive a full refund of the deposit, provided that Purchaser notifies Seller and Listing Agent in writing in accordance with the NOTICES paragraph within said above time period of the unsatisfactory inspection report. If this contract is not declared null and void within said time period, this contingency shall automatically expire and this contract shall remain in full force and effect.

UNLESS OTHERWISE STATED HEREIN, IT IS FURTHER AGREED AND UNDERSTOOD THAT ANY INSPECTION(S) OF THE PREMISES MADE HEREUNDER SHALL BE IN ADDITION TO AND NOT IN LIEU OF INSPECTION(S) AND PROVISIONS CONCERNING THE CONDITION OF THE PREMISES REFERRED TO IN THE PARAGRAPHS OF THIS CONTRACT ENTITLED PROPERTY CONDITION AND TERMITE INSPECTION.

_____ Initials **3. "AS IS" CONDITION**

The property is sold in "AS IS" condition, said condition to be determined as of _____ (insert date of contract ratification, date of inspection contingency release, date of settlement, or other agreed date). Seller makes no representation or warranty, express or implied, as to the condition of the property or any equipment or system contained therein. All clauses in the contract pertaining to property condition, termites or compliance with city, state or county regulations are hereby deleted from the contract. Seller shall have no obligation to make repairs to the electrical, plumbing, heating, air conditioning, or any other mechanical system, equipment or fixture. Smoke detectors shall be installed as required by Washington, D.C. law.

_____ Initials **4. SELLER/PURCHASER CREDITS**

Seller shall credit Purchaser at time of settlement with the sum of $_____ or _____% of total gross purchase price towards Purchaser's allowable closing costs. (Check with lender on amount and/or purpose of credit.)

_____ Initials **5. HOLDING CHECK**

The deposit check is to be held until _____ (date) for transfer of funds. [Must not exceed 7 days, D.C. Code Section 45-1937 (a) (1)].

_____ Initials **6. PROMISSORY NOTE**

_____ (date). In addition to the deposit thereunder and as partial consideration for the Seller's acceptance of the Sales contract dated_____ for the sale of _____, Washington, D.C., the undersigned Purchaser promises to pay to the order of _____ the sum of $ _____ on or before the _____ day of _____, 19____. Failure to pay said sum by the due date shall give the Seller the right to declare the deposit under said Sales contract forfeited or to avail himself of any legal or equitable rights as provided in the Sales contract Paragraph labeled "Forfeiture of Deposit/Liquidated Damages".

_____ Initials **7. THIRD PARTY APPROVAL**

This contract is contingent upon the written approval of _____ as to all terms and conditions herein by no later than 5:00p.m. on _____. In the event written notice of disapproval is not delivered to Agent _____ (specify) and _____ (Seller/Purchaser) by said time and date, this contingency clause automatically becomes null and void and the contract shall remain in full force and effect. No notice of approval is required. In the event written notice of disapproval is timely delivered to said Agent_____ (specify) and_____ (Seller/Purchaser) this contract shall automatically become null and void and the deposit shall be returned to the Purchaser in full.

_____ DATE _____ SELLER

_____ DATE _____ SELLER

_____ DATE _____ PURCHASER

BEST COPY AVAILABLE

Addendum

Special provisions attached to and hereby made a part of the contract dated _____, 19____ for the property known as _____ _____, Washington, D.C., Zip Code _____ by and between the undersigned Seller (hereinafter referred to as Seller) and the undersigned Purchaser (herein referred to as Purchaser). (NOTE: BROKERS MAY WISH TO HAVE THEIR LEGAL COUNSEL REVIEW THESE CLAUSES PRIOR TO USE.)

_____ Initials **8. CONTRACT REQUIRING CO-SIGNERS**

Purchaser shall secure the written approval of _____ (name of co-signer(s)) as a co-signer of this contract by no later than 5:00p.m. on _____. In the event written NOTICE OF APPROVAL, in such form as shall be legal requisite to bind _____ (name of co-signer(s)) as a party to this contract, is not timely delivered to Agent _____ (specify), this contract shall automatically become null and void and the deposit shall be returned to the Purchaser in full.

It is agreed that _____ (name of co-signer(s)) will execute, endorse, co-sign, co-mortgage and/or furnish and execute all documents necessary to complete or effectuate the purchase of this property and to comply with all of the terms and conditions of this contract, including but not limited to, all time limits.

(NOTE: Agent should personally verify the intent of co-signer, if possible. It is recommended that the co-signer arrange to sign the contract at the time the offer is written.)

_____ Initials **9. TELEGRAM/MAILGRAM ACCEPTANCE** (Note: to be signed by all parties.)

We hereby accept the (offer/counter offer) to (purchase/sell) _____ (address) Lot _____, Square _____, dated _____, 19____ from _____ (Seller/Purchaser) upon the following terms: Deposit $_____ at _____ % per annum due in _____ YEARS. Seller agrees to pay loan fees not to exceed _____ % of the principal amount of the loan. Financing contingency shall be for _____ days from ratification of this contract. Settlement by _____. Seller agrees to all other terms of the recommended WASHINGTON, D.C. ASSOCIATION OF REALTORS® _____ [Specify Single Family/Condominium/Cooperative form] Sales contract.

(NOTE: Any deletion to the recommended WDCAR contract and/or additions including special provisions, such as secondary financing, inspection contingency and personal property items in the contract must be included in the telegram.

_____ Initials **10. TIME LIMIT FOR ACCEPTANCE**

This (offer/counter-offer) must be accepted by no later than _____ (AM) (PM) on the _____ day of _____ 19__, and written NOTICE OF ACCEPTANCE must be delivered within said time period to Agent and _____ (Seller/Purchaser) in accordance with the NOTICES paragraph hereof. If said NOTICE OF ACCEPTANCE is not delivered within the time herein provided, this (offer/counter-offer) shall be automatically null and void and the deposit shall be returned to the Purchaser in full.

_____ Initials **11. SALE OF PURCHASER'S HOME**

a. This contract is contingent upon Purchaser's acceptance of a contract of sale on Purchaser's property located at _____ _____ by no later than 5:00p.m. on the _____ day of _____, 19___, which sale Purchaser shall diligently and in good faith pursue. Purchaser shall deliver to Agent _____ (specify) within said time period, in accordance with the NOTICES paragraph hereof, copies of said sales contract for Purchaser's property which shall provide for settlement thereunder within the time for settlement under this contract. Purchaser's property shall be listed exclusively with a licensed real estate broker on or before the _____ day of _____, 19____, and Purchaser shall deliver to said Agent within said time period, in accordance with the NOTICES paragraph hereof, a copy of the listing contract for Purchaser's property with said broker. If any of the documents provided for in this paragraph are not timely delivered, this contract shall automatically become null and void and the deposit shall be returned to Purchaser in full.

b. The Parties agree that Seller's property herein shall remain on the market during the above contingency period. Accordingly, notwithstanding subparagraph a. of this paragraph, if Purchaser does not remove the above contingency and provide evidence of ability to perform under the terms herein within _____ hours after receipt of written notice that Seller has accepted a Secondary contract, said notice to be delivered in accordance with the NOTICES paragraph hereof, this contract shall become null and void, and the Purchaser's deposit shall be promptly returned in full.

(NOTE: Paragraph 11b. should accompany 11a., "Sale of Purchaser's Home", or any other contingency desired.)

_____ Initials **12. CONTINGENT ON SELLER PURCHASING ANOTHER HOME**

This contract is contingent upon Seller executing a contract to purchase another home (which Seller shall diligently and in good faith pursue) by no later than 5:00p.m. on the _____ day of _____, 19____. In the event Seller does not deliver a written waiver of this contingency to Agent _____ (specify) and Purchaser within the aforesaid time period, this contract shall automatically become null and void and the Purchaser's deposit shall be returned in full.

_____ Initials **13. SECONDARY CONTRACT**

a. Purchaser acknowledges that this is a Secondary contract and that there is a pre-existing Primary contract on this property dated _____, 19____. The rights of the Purchaser under the Primary contract and the obligations of Seller thereunder are and shall be in all respects superior to the rights and obligations of the parties hereunder. If the Primary contract is cancelled, withdrawn or otherwise made null and void, Seller shall promptly deliver to the Agents and Purchaser written notice of same and NOTICE that this contract has become the Primary contract, in the manner set forth in the NOTICES paragraph hereof. If the Primary contract on this property has not been cancelled, withdrawn or otherwise made null and void by no later than 5:00p.m. on the day of _____, 19____, then this Secondary contract shall automatically become null and void (but Seller shall nonetheless deliver, within 24 hours thereafter, written notice thereof to Purchaser and Agents), and the deposit shall be returned promptly to Purchaser in full. Seller does hereby expressly release and discharge the Escrow Agent and the other Agents holding the deposit from any and all claims and demands Seller has or may have against any of them for returning the deposit.

Suggested Form of Notice to Purchaser

b. Purchaser is hereby notified that the Primary contract on _____ has been cancelled/withdrawn and that the Secondary contract has become the Primary contract and is in full force and effect. This contract with Purchaser shall be the Primary contract and the date of final ratification of this contract shall be the date on which Purchaser receives this notice.

_____ DATE	_____ SELLER
_____ DATE	_____ SELLER
_____ DATE	_____ PURCHASER

BEST COPY AVAILABLE

Special provisions attached to and hereby made a part of the contract dated _____, 19____ for the property known as _____ _____, Washington, D.C., Zip Code _____ by and between the undersigned Seller (hereinafter referred to as Seller) and the undersigned Purchaser (herein referred to as Purchaser). (NOTE: BROKERS MAY WISH TO HAVE THEIR LEGAL COUNSEL REVIEW THESE CLAUSES PRIOR TO USE.)

_____ Initials **14. ACCELERATION OF SETTLEMENT DATE/LOAN COMMITMENT EXPIRING**
It is expressly agreed by all parties that, in the event Purchaser receives a loan commitment which is to expire prior to the settlement date called for herein, all parties will proceed to settlement prior to the expiration date of said loan commitment and in such event Seller shall have the right to remain in possession of the subject property through _____, 19____, and for such right shall pay a daily payment of $ _____. The Seller shall also place with the Settlement Attorney a security deposit in the amount of $_____ (NOTE: POST-SETTLEMENT OCCUPANCY AGREEMENT SHOULD BE EXECUTED IF SUCH ACCELERATED CLOSING OCCURS.)

_____ Initials **15. GIFT LETTER** (NOTE: Check with lender as to letter format.)
Purchaser shall secure a legally binding letter and statement from _____ agreeing to timely provide moneys toward the _____ (deposit/downpayment) hereunder in the amount of $_____, said letter and statement to be obtained on or before the_____ day of _____, 19____. In the event Purchaser does not provide Agent _____ (specify) with the letter as above required within the aforestated time period, this contract shall be null and void, in which event Seller irrevocably authorizes the deposit to be returned to the Purchaser without further notice or demand, and Seller does hereby expressly release and discharge the Escrow Agent holding the deposit and the other Agents from any and all claims and demands Seller has or may have against any of them for returning the deposit to Purchaser pursuant to the terms of this Paragraph.

_____ Initials **16. PRELIMINARY FINANCING CONTINGENCY**
This contract is contingent upon Purchaser delivering to the Seller, within seven (7) calendar days from date of final ratification of this contract, a written prequalification letter from a recognized institutional lender of Purchaser's choice, in form and substance satisfactory to Seller in Seller's reasonable discretion, that the herein described financing is available to Purchaser and, based upon the information provided by Purchaser, the herein described financing should be committed subject to appropriate verification, approvals and commitment. If such a prequalification letter is not delivered within said seven (7) calendar days, Seller has the absolute right to declare this contract null and void by written notice to Purchaser within ten (10) calendar days from date of final ratification hereof. If Seller so declares this contract null and void, the deposit shall be returned to Purchaser. Purchaser agrees to make loan application with an institutional lender which customarily provides said prequalification letter. It is understood that this prequalification letter does not constitute the loan commitment which is subject to both the Purchaser and the property meeting the lender's and/or investor's guidelines.

_____ Initials **17. EXTENSION FOR ANY CONTINGENCY**
The expiration date for the contingency for _____ is hereby extended through 5:00p.m. on_____, 19____.

_____ Initials **18. RECEIPT OF CONDOMINIUM/COOPERATIVE DOCUMENTS**
The Purchaser hereby acknowledges receipt of all of the Condominium/Cooperative [strike one] information as required by the Sales contract for the purchase of Apartment # _____ at the _____ Condominium/Cooperative, [strike one] located at _____. Dated the _____ day of _____, 19____ at _____ AM or _____ PM.

_____ Initials **19. ITEMS TO CONVEY AT SETTLEMENT**
In addition to the improvements mentioned in Paragraph 1 of this contract, the following items of personal property (which the parties agree have value) shall convey with the realty at the time of settlement: _____
_____

_____ Initials **20. ITEMS TO BE REMOVED**
Notwithstanding the provisions of Paragraph 1 of this contract, the following fixtures and/or items of personal property shall not convey and shall be removed from the subject property by Seller prior to settlement and will not be replaced: _____
_____

_____ Initials **21. POST-SETTLEMENT OCCUPANCY AGREEMENT**
Purchaser agrees to grant occupancy to Seller from the date of settlement. Seller and Purchaser agree to the terms and conditions of the Post-settlement Occupancy Agreement which is attached to and is part of this contract.

_____ Initials **22. PRE-SETTLEMENT OCCUPANCY AGREEMENT**
Seller agrees to grant occupancy to Purchaser on _____. Seller and Purchaser agree to the terms and conditions of the Pre-settlement Occupancy Agreement which is attached to and is part of this contract.

_____ Initials **23. LICENSED SELLER/PURCHASER AGENT**
The parties acknowledge that _____ is a licensed real estate agent in _____(DC, MD or VA) associated with _____ and may share in the brokerage fee to be paid.
(NOTE: This clause should be used when Purchaser or Seller is a licensed real estate agent; failure to include could result in violation of the law.)

_____ Initials **24. BROKERAGE FEE SEPARATE FROM SALES PRICE**
It is understood and agreed by all parties that (agent's name) _____, of (Company Name) _____, is acting as an agent solely representing the Purchaser in this transaction ("Buyer's Broker"). Seller has no obligation to Buyer's Broker, and does not owe a brokerage fee or other consideration of any nature to said Buyer's Broker. The settlement office is directed to collect from Purchaser's funds, and to pay at settlement, said Buyer's Broker fee from Purchasers' funds and to disburse said fee, as per the separate Buyer's Broker Agreement between Buyer's Broker and Purchaser. This Buyer's Broker's fee is separate and apart from any brokerage fee owed to the Seller's Listing Broker pursuant to the agency paragraph of the above-referenced Sales contract. The parties acknowledge that said Buyer's Broker relationship was disclosed to Seller and/or Seller's agent prior to showing the property to the Purchaser.

_____	_____
DATE	SELLER
_____	_____
DATE	SELLER
_____	_____
DATE	PURCHASER

BEST COPY AVAILABLE

Addendum

Special provisions attached to and hereby made a part of the contract dated _____, 19___ for the property known as ___ _____, Washington, D.C., Zip Code _____ by and between the undersig Seller (hereinafter referred to as Seller) and the undersigned Purchaser (herein referred to as Purchaser). (NOTE: BROKERS MAY WISH HAVE THEIR LEGAL COUNSEL REVIEW THESE CLAUSES PRIOR TO USE.)

_____ Initials

25. AGREEMENT BETWEEN SELLER AND BUYER'S BROKER (FSBO/BUILDER)

It is understood and agreed by all parties that (agent's name) _____ (Company Name) _____, is acting as an agent solely representing the Purchase this transaction ("Buyer's Broker"). The Seller agrees to pay to the Buyer's Broker a cash payment of $ _____ Settlement Office is hereby irrevocably directed to deduct and pay said Buyer's Broker's fee from the proceeds of the sale. This fe separate and apart from, and is in addition to, any brokerage fee owed to any Listing Broker pursuant to the agency paragraph of above-referenced contract. The Parties acknowledge that said Buyer's Broker relationship was disclosed to Seller and/or Sell agent prior to showing the property to the Purchaser.

_____ Initials

26. ADDITIONAL SELLER TAKE BACK FINANCING PROVISIONS

Each monthly installment on the note described in Pargraph 3c. of Sales contract when so paid shall be applied first to the paymer late charges, then to interest on the amount of principal remaining and the balance thereof credited to principal, which note and d of trust Seller agrees to accept as part of the purchase price. In case of default on any payment, the entire amount then remai unpaid shall become due and payable fifteen (15) days after written notice is sent to maker by certified mail, return receipt reques unless maker cures said default prior to the expiration of said fifteen (15) day period. Said trust and note may not be assumed or t taken subject to said trust and note without the prior written consent of the noteholder. The note shall provide that i. maker shall pa late charge of five percent (5%) of any monthly installment not received by the noteholder within thirty (30) days of the due date; ii. default in the payment of any prior encumbrance or charge against the Property shall be construed to be a default on the paym of this note. The deed of trust shall provide that unless waived by the noteholder, maker will submit to noteholder, on a yearly ba evidence of payment by the due date of all real property taxes and assessments and all insurance premiums for policies on Property.

_____ Initials

27. TENANCY

The Property is sold and shall be conveyed free of any existing tenancy, except as follows: _____ _____ (hereinafter the "Tenant(s)"). Without the prior written consent of Purchaser (which shall not unreasonably withheld) Seller shall not a. modify the terms of or terminate such tenancy, except for non-payment of rent, or b. enter any new leases or tenancies with respect to the Property. Seller represents to Purchaser and Agents that on _____ 19____. Seller has provided to the Tenant(s) a written notice of the intended sale of the Property and a bona fide offer of sale. If Property is tenant occupied, Purchaser hereby represents that Purchaser (WILL/WILL NOT)_____ occupy the Prope

_____ Initials

28. ADDITIONAL TENANCY PROVISIONS

Seller and Purchaser further acknowledge that, in addition to the rights under the bona fide offer of sale, the Tenant(s) has an additio fifteen (15) day right of first refusal to purchase the Property during the period specified by District of Columbia law and regulatio Seller further represents and agrees that within two (2) days after final ratification of this contract Seller will hand-deliver to Tenant(s) and send by first-class mail the notice of right of first refusal required by District of Columbia law and regulations and a co of this contract. In the event that prior to the date of this contract Seller has not provided to the Tenant(s) a written notice of the intenc sale of the Property and a bona fide offer of sale, Seller represents and agrees that within two (2) days after final ratification of t contract Seller will hand-deliver and send by first class mail to the Tenant(s) a written notice of the intended sale of the Property, a bo fide offer of sale, the required notice of right of first refusal and a copy of this contract. Upon or after execution of a contract of sal the Property between Seller and the Tenant(s), at the option of Purchaser (exercisable by written notice to Seller) this contract shall void and the deposit hereunder shall be returned to Purchaser. If however, the Tenant(s) shall fail to exercise the foregoing right purchase the Property or shall execute and deliver a valid rejection of said rights, then this contract shall remain in full force and eff The Seller shall keep Purchaser and the Agents apprised of all negotiations, correspondence, contracts and other developments v respect to negotiations with the Tenant(s). All actions required hereunder to be taken by Seller shall be taken in accordance v District of Columbia law and regulations.

_____ DATE	_____ SELLER
_____ DATE	_____ SELLER
_____ DATE	_____ PURCHASER
_____ DATE	_____ PURCHASER

BEST COPY AVAILABLE

A. Settlement Statement

U.S. Department of Housing and Urban Development

OMB Approval No. 2502-0265

B. Type of Loan	6. File Number	7. Loan Number	8. Mortgage Insurance Case Number
1. ☐ FHA 2. ☐ FmHA 3. ☐ Conv. Unins 4. ☐ VA 5. ☐ Conv. Ins.			

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. Name and Address of Borrower	E. Name and Address of Seller	F. Name and Address of Lender

G. Property Location	H. Settlement Agent	
	Place of Settlement	I. Settlement Date

J. Summary of Borrower's Transaction		K. Summary of Seller's Transaction	
100. Gross Amount Due From Borrower		**400. Gross Amount Due To Seller**	
101. Contract sales price		401. Contract sales price	
102. Personal property		402. Personal property	
103. Settlement charges to borrower (line 1400)		403.	
104.		404.	
105.		405.	
Adjustments for items paid by seller in advance		**Adjustments for items paid by seller in advance**	
106. City/town taxes to		406. City/town taxes to	
107. County taxes to		407. County taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due From Borrower		**420. Gross Amount Due To Seller**	
200. Amounts Paid By Or In Behalf Of Borrower		**500. Reductions In Amount Due To Seller**	
201. Deposit or earnest money		501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to seller (line 1400)	
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
Adjustments for items unpaid by seller		**Adjustments for items unpaid by seller**	
210. City/town taxes to		510. City/town taxes to	
211. County taxes to		511. County taxes to	
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid By/For Borrower		**520. Total Reduction Amount Due Seller**	
300. Cash At Settlement From/To Borrower		**600. Cash At Settlement To/From Seller**	
301. Gross Amount due from borrower (line 120)		601. Gross amount due to seller (line 420)	
302. Less amounts paid by/for borrower (line 220)	( )	602. Less reductions in amt. due seller (line 520)	( )
303. Cash ☐ From ☐ To Borrower		603. Cash ☐ To ☐ From Seller	

BEST COPY AVAILABLE

L. Settlement Charges				
700. Total Sales/Broker's Commission based on price $	@	% =	Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement
Division of Commission (line 700) as follows				
701. $	to			
702. $	to			
703. Commission paid at Settlement				
704				
800. Items Payable In Connection With Loan				
801. Loan Origination Fee	%			
802. Loan Discount	%			
803. Appraisal Fee	to			
804. Credit Report	to			
805. Lender's Inspection Fee				
806. Mortgage Insurance Application Fee to				
807. Assumption Fee				
808				
809				
810				
811				
900. Items Required By Lender To Be Paid In Advance				
901. Interest from	to	@$ /day		
902. Mortgage Insurance Premium for		months to		
903. Hazard Insurance Premium for		years to		
904		years to		
905				
1000. Reserves Deposited With Lender				
1001. Hazard insurance	months@$	per month		
1002. Mortgage insurance	months@$	per month		
1003. City property taxes	months@$	per month		
1004. County property taxes	months@$	per month		
1005. Annual assessments	months@$	per month		
1006	months@$	per month		
1007	months@$	per month		
1008	months@$	per month		
1100. Title Charges				
1101. Settlement or closing fee	to			
1102. Abstract or title search	to			
1103. Title examination	to			
1104. Title insurance binder	to			
1105. Document preparation	to			
1106. Notary fees	to			
1107. Attorney's fees	to			
(includes above items numbers:)				
1108. Title insurance	to			
(includes above items numbers:)				
1109. Lender's coverage	$			
1110. Owner's coverage	$			
1111				
1112				
1113				
1200. Government Recording and Transfer Charges				
1201. Recording fees: Deed $	; Mortgage $	; Releases $		
1202. City/county tax/stamps: Deed $	; Mortgage $			
1203. State tax/stamps: Deed $	; Mortgage $			
1204				
1205				
1300. Additional Settlement Charges				
1301. Survey to				
1302. Pest inspection to				
1303				
1304				
1305				
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)				

BEST COPY AVAILABLE

GLOSSARY

GLOSSARY

A

ACQUIRED PROPERTY

A property owned as a result of a foreclosure, acceptance of a deed-in-lieu of foreclosure, or acquired as a result of a paid insurance claim; often referred to as Real Estate Owned (REO).

ADJUSTABLE RATE MORTGAGE (ARM)

A mortgage that permits the lender to periodically adjust the interest rate when the index changes.

AMORTIZE

A period of time over which a calculated mortgage payment will fully repay a set loan amount at a specified interest rate.

ANNUAL PERCENTAGE RATE (APR)

The total annual mortgage cost stated as a percentage of the loan amount.

APPRAISAL

A professional estimate of a property's market value.

ASSUMABLE MORTGAGE

A mortgage that a buyer can take over with the purchase of a property.

B

BINDER

An offer secured by an earnest money deposit.

BUDGET

An itemized summary of probable expenditures and income for a given period;a systematic plan for meeting expenses in a given period; the total sum of money allocated for a particular purpose or time period.

BUYDOWN

A sum of money paid to a lender at closing to reduce the borrower's out-of-pocket monthly mortgage payment. Most buydowns are temporary.

C

CAP

A limit on an adjustable rate mortgage (ARM) which determines how much the interest rate can increase.

CASH RESERVE
The equivalent of mortgage payments that a lender requires a borrower to have available after closing.

CLEAR TITLE
Title to a property without liens or questions of ownership.

CLOSING
A meeting or settlement of the finalized sale on a property where documents are signed, and monies exchanged.

CLOSING COSTS
Expenses or settlement costs, above the sales price, incurred by both buyer and seller during the transfer of a property.

COMMITMENT
A written agreement between a lender and a borrower to loan money subject to compliance with stated conditions.

COMMITMENT LETTER
A letter sent by the lender to a borrower stating that the loan has been approved and describing the terms of the loan.

CONDOMINIUM
A form of ownership where a unit and interest in common areas is owned.

CONTINGENCY
Conditioned events that must happen in order for the buyer and seller to conclude a sales transaction.

CONTRACT
An greement between two or more parties for legal consideration.

CONVENTIONAL MORTGAGE
Any mortgage that is not insured or guaranteed by the Federal Government.

CONVERTIBLE MORTGAGE
An adjustable rate mortgage that can be converted to a fixed-rate mortgage under specified conditions.

CONVEYANCE
The transfer of title on real property from one party to another.

COOPERATIVE
A form of ownership where shares of stock for a unit is owned in a corporation rather than a unit itself.

CREDIT DEROGATIVES
Negative credit reflected on a credit report such as slow pays, open collection accounts, liens, judgements etc.

CREDIT REPORT
An individual's or organization's credit history prepared by a credit bureau and used by a lender to determine a loan applicant's creditworthiness.

D

DEBT
A sum of money due by an expressed agreement.

DEBT-TO-INCOME-RATIO
Percentage of total debt payments to gross income.

DEED
The legal document conveying title to a property.

DEED OF TRUST
A document used instead of a mortgage in some states.

DEFAULT
Failure to make loan payments when they are due.

DEPOSIT
A cash deposit made by a potential buyer to demonstrate that the the offer to purchase is serious.

BEST COPY AVAILABLE

DISCOUNT POINT
An amount equal to one percent of the principal amount of a mortgage loan. A one time charge assessed by the lender that must be paid in cash at closing.

DOWN PAYMENT
The part of the purchase price that a buyer pays in cash and is not included in the mortgage.

E

EARNEST MONEY DEPOSIT
See "Deposit".

EQUAL CREDIT OPPORTUNITY ACT (ECOA)
Federal law that prohibits lenders from denying mortgages on the basis of race, color, religion, national origin, age, sex, marital status.

EQUITY
A homeowner's financial interest in a property. Equity is the difference between the fair market value of a property and the amount still owed on the mortgage.

ESCROW
Money deposited with a third party that is returned upon fulfillment of a condition or contract.

ESCROW ACCOUNT
An account established with a third party (See "Escrow").

F

FAIR CREDIT REPORTING ACT
A consumer protection law that regulates the disclosure of consumer credit reports.

FANNIE MAE
Federal National Mortgage Association

FHA

Acronym for the Federal Housing Administration that provides mortgage insurance and sets construction and underwriting standards. FHA does not lend money.

FHA MORTGAGE

A mortgage insured by the Federal Housing Administration (FHA).

FIXED-RATE MORTGAGE

A mortgage in which the interest rate does not change.

FLOOD INSURANCE

Insurance required on properties located in a designated flood area.

FORBEARANCE

A lender's agreement to postpone foreclosure in order to give a borrower time to catch up on overdue payments.

FORECLOSURE

The legal procedure permitting a creditor to take possession of and sell property that is mortgaged as security for a defaulted loan.

FOR SALE BY OWNER

Homeowners who sell their homes without the assistance of a real estate agent.

FREDDIE MAC

Federal Home Loan Mortgage Corporation.

G

GOAL

The objective toward which an endeavor is directed.

GOOD FAITH ESTIMATE

An itemized breakdown of estimated closing or settlement costs.

GROSS MONTHLY INCOME

The total amount a borrower earns each month before income taxes or other expenses are deducted.

H

HAZARD INSURANCE
A casualty policy covering real estate property against "multiple perils."

HOMEOWNER'S WARRANTY
Insurance that covers repairs to specific parts of a house for a specific period of time.

HUD
Acronym for the U.S. Department of Housing and Urban Development which administers many housing programs.

I

INDEX
A measurement used by lenders to determine any changes to the interest rate charged on an adjustable rate mortgage.

INTEREST
The fee charged for borrowing money.

INTEREST RATE
A percentage of an amount of money usually expressed as an annual percentage which is paid for the use of the money for a specified period of time.

L

LIEN
A legal claim to a property that must be paid when the property is sold.

LOAN
The letting of money by a lender to a borrower to be repaid with or without interest.

LOAN ORIGINATION FEE
See "Origination fee".

LOAN-TO-VALUE (LTV)
The amount of a loan compared to the value of a property expressed as a percentage.

LTV
See "Loan-to-value".

M

MARGIN
The lender's cost and profit for doing business which is added to the index rate to determine the interest rate on an adjustable rate mortgage for the upcoming period.

MORTGAGE
A legal document which a borrower gives to the lender on property as security for payment of a debt.

MORTGAGEE
The lender in a mortgage agreement.

MORTGAGOR
The borrower in a mortgage agreement.

MORTGAGE BANKER
An entity active in the field of mortgage banking.

MORTGAGE BROKER
A firm that processes loans for a number of lenders.

MORTGAGE INSURANCE
Insurance that protects lenders against loss if a borrower defaults.

N

NOTE
A written promise by one party to pay a specified sum of money to a second party under the conditions agreed upon mutually. Also called a "promissory note".

NOTE RATE
The interest rate on a mortgage loan.

O

Origination fee
A fee paid to the lender for processing the loan application, stated as a percentage of the mortgage amount.

P

PITI
An acronym for Principal, Interest, Taxes and Insurance, the components of a monthly mortgage payment.

Points
See "Discount points".

Prequalification
Determining the amount a buyer is eligible to borrow before a loan application is made.

Prioritize
To arrange or deal with in order of importance.

Q

Qualifying income ratios
A comparison of a proposed monthly housing expense to gross monthly income; and a comparison of total monthly debt, including proposed housing expense, to gross monthly income.

R

Real estate agent
A licensed person who acts on behalf of an owner to sell a property. In some states, a licensed person who acts on behalf of the buyer, and is paid a commission by the seller.

Real estate settlement procedure Act (RESPA)
Requires lenders to give borrowers advance notice of closing costs.

Rural Economic and Community Development (RECD)
Provides housing loans in rural communities, formerly known as Farmers Home Administration (FmHA).

REFINANCING
Paying off one loan from the proceeds of another loan on the same property.

S

SURVEY
A drawing showing the legal boundaries of a property.

T

TITLE
A legal document establishing the right of ownership.

U

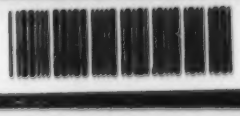
UNDERWRITING
A risk analysis conducted by a lender to decide whether or not to approve a loan.

V

VERIFICATION OF DEPOSIT (VOD)
A form sent to each depository listed on the loan application to verify funds of the borrower.

VERIFICATION OF EMPLOYMENT (VOE)
A form sent to the borrowers employer to verify the borrower's employment and employment history.

DEPT. OF VETERANS AFFAIRS (VA LOAN)
A federal agency that guarantees no downpayment loans to veterans who have served and active military who are serving in the U.S. military.

Y

YIELD
The effective rate of return on an investment based on fees, an interest rate, and the price paid for the mortgage.